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TRADE POLICY AGENDA AND OUTLOOK FOR 1986

COMPLETED
83 of 196 ORIGINAL

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

TESTIMONY OF AMBASSADOR CLAYTON YEUTTER, U.S. TRADE REPRESENTATIVE

FEBRUARY 20, 1986

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TRADE POLICY AGENDA AND OUTLOOK FOR 1986

THURSDAY, FEBRUARY 20, 1986

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 1100, Longworth House Office Building, Hon. Sam Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[For immediate release, Thursday, Feb. 6, 1986]

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON TRADE POLICY AGENDA AND OUTLOOK FOR 1986

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee on Trade will hold a hearing on Thursday, February 20, 1986, on the trade policy agenda and outlook for 1986. The hearing will be held in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

The sole witness will be the Honorable Clayton Yeutter, United States Trade Representative.

Nineteen-eighty-six will be a pivotal year for U.S. trade policy. The House of Representatives is likely to consider major trade reform legislation, and the Subcommittee will begin hearings and action on such legislation in March.

In anticipation of Subcommittee action on specific legislative proposals, the Subcommittee would like to hear from the Administration's chief trade policy official as to the major policy initiatives now underway or planned for 1986. In recent months, a series of actions has been announced concerning both bilateral and multilateral trade issues.

The hearing will permit the Subcommittee to gain further information and insights on these policy initiatives. In particular, the hearing will examine recent actions taken by the Administration under section 301 of the Trade Act of 1974 against foreign trade barriers in Japan, the European Communities, Korea, and Brazil. The Administration will also be asked to report on progress toward the undertaking of a new round of multilateral trade negotiations and the proposed bilateral negotiations with Canada. Finally, the hearing will examine recent steps taken by the Administration with regard to monetary policy and the effect these are likely to have on the trade deficit.

The Subcommittee plans to schedule additional hearings in the near future to receive the views of the private sector on these issues.

Chairman GIBBONS. Well, good morning, ladies and gentlemen, and welcome to this meeting of the Subcommittee on Trade of the Committee on Ways and Means. As many people have said, this year will be to trade as last year was to taxes. I hope that's not an exact prediction; I'm not too happy about what happened last year

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with taxes. I hope that we can, this year, develop, refine, and help the administration promulgate some new American trade policies—trade policies which, I hope, will tend to open the markets of the world, level the playing fields, discourage predatory practices and unfair practices, particularly subsidies, and will encourage all nations to work together—multilaterally, or bilaterally, or however we can work together—to provide a better international trading environment.

Trade, as I see it—if properly conducted—tends to raise the standard of living of all who successfully participate in it. We need to be concerned about the problems of our workers, and our communities, and our businesses that are dislocated by the market opening and market liberalization process, but we must recognize that that has been a hallmark of America. It is this change, this process of constant change ever since America has become a nation—some of which is very unpleasant, particularly in some segments of society—that has raised our standard of living to the high standard that we now enjoy. There's nothing magic about it; it's just good, common sense.

This is the first hearing of a series of hearings that I hope we will have this year, establishing firmly an American trade policy. As I think all of us see the scenario unfolding, the Ways and Means Committee will go into a workshop retreat at some place outside of Washington for a long, long weekend at which we will, in great detail and with a great deal of candor between ourselves, examine what the situation is and what perhaps must be done to correct it. We will then perhaps introduce a draft piece of legislation; we have one that has already been roughly prepared. If we can agree that that's an appropriate draft piece of legislation, we'll introduce that and have a broad-scale public discussion.

So it is to set the tone for this examination that we have invited Ambassador Yeutter here today, he being the chief representative of the United States with foreign nations as far as trade is concerned, and his office having uniquely been created by the Congress to be placed in the Office of the President to carry out the trade mandate that the Constitution of the United States vests in the Congress. It always comes as a shock to all of us to learn and understand that when our forefathers put this unique nation of ours together, after the end of a lot of giving and taking and bargaining, they couldn't figure out where to put the trade function so they put it in the hands of the Congress. Almost 200 years of history have taught us that that's a very awkward way of carrying out our trade functions, and beginning in the 1930's with Cordell Hull's reciprocal trade agreements, we began to delegate greater and greater powers to the President.

Those powers reside in the hands of the USTR. The USTR is, we believe, our representative in the White House, our representative around the world to negotiate and work for us.

The 1962 Trade Expansion Act formalized this process and ever since then we have been expanding upon it.

I want to commend all of my fellow Members for their attendance today; this is one of those days when most Members would rather be back in their districts, working there—so I appreciate them all coming.

I wonder if there are other remarks from our panel here before we call upon Ambassador Yeutter? Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

Just very briefly, I'd like to commend you for holding this hearing and this series of hearings. And I agree with you that this may be the year of trade, and this may also be the decade—or the decade and a half—of trade as I look into the future.

It seems to me that the world trading structure is at somewhat of a crossroads or a turning point, and the policies and formulations which we put forth now will control our role in international trade for the next decade or two. And, therefore, it's vital for us to look at our position in international trade in the light of history, where we've been and where we're going. It seems to me that since World War II and the development of GATT we have been extremely altruistic as a nation in opening our doors and saying to nearly all nations in most areas and products, "We are willing to accept almost anything that you have." This has caused a dramatic increase in the standard of living in many countries around the world, but we're fast reaching the point of sophistication in international trade where we've got to take a second look at some of these policies and say that the time has come that we need a little reciprocity. A great many economists say that we are inexorably becoming a service-oriented economy; if that is true and that's happening, we say to other countries, "You've got to open your gates, your doors to our service-oriented business, to our architects and engineers and banking structures and others, or we are not going to take your products." That may be very difficult to do, and sound very protectionist at times, but we have to take a look at the next decade or two of trade.

I hope, Mr. Chairman, that we will do that and that we can develop with the administration a trade policy which will stand the test of time.

Chairman GIBBONS. Thank you, Mr. Schulze.

Are there other observations?

Mr. DOWNEY. Mr. Chairman, there's very little on which this administration and I agree. And fortunately for us trade policy is one of those rare exceptions. I think the administration has done a pretty good job over the years in resisting the passions of protectionism that sometimes emanate from this body.

One of the things that I hope that we look at, Mr. Chairman, over the course of these hearings—which I commend you for holding—is the whole question of trade with the Soviet Union and Eastern bloc countries, as well. Our former subcommittee chairman used to say that trade was the currency of peace; I believe that very deeply. I believe, as well, that you're less likely to blow somebody up who owes you a lot of money. Frankly, the idea of the Soviet Union and the Eastern bloc countries owing us a great deal of money and having a great deal of trade with us makes eminent sense to me for a whole variety of reasons, and I hope that at some point in your testimony, Mr. Yeutter, you can possibly address those issues.

Thank you, Mr. Chairman.

Chairman GIBBONS. Yes, sir.

Other observations? Mr. Daub.

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Mr. DAUB. Mr. Chairman, I just want to say briefly that, first, I think that this year is going to be a very important one for you and for this subcommittee. I'm not a member of it, so I appreciate the chance to be here today, and thank you very much, Mr. Chairman.

And just to say a few words to particularly welcome a fellow Nebraskan and commend him to you. Most of you know him already, but Clayton Yeutter is a friend from Eustis, NE, a place way out west on that long stretch of interstate that some may have traveled to get to ski country in Colorado. It's out on that end of Nebraska. He is a Nebraska graduate, with a law degree and a Ph.D. in agriculture economics; very active, as you know, in public service. Nebraska is very proud of his public service record; he's contributed a good deal to our country. And I think what's important to me is his mix of public service is just right for the time.

To you, Clayton, I will say that agriculture is very important, as you well know, to the trade picture in the world. We need some top leadership right now and some actions, not words. We think you're just right for that job. And we're glad you're here today to start it off.

Chairman GIBBONS. Ms. Kennelly.

Ms. KENNELLY. Thank you, Mr. Chairman.

I'd like to welcome Ambassador Yeutter. I've been bothering him an awful lot about ball bearings and machine tools. This is a wonderful opportunity now for all of us to come together in a very nonpartisan fashion. We've been living in a world this past year where the words "free trade" are words that have developed a very hollow echo, and we're all sick of reading simplistic and often contradictory solutions to the trade crisis by economists. And we're sick of abiding—when I say "we," I mean we in the United States—by rules and regulations that other nations refuse to follow.

Mr. Chairman—I salute you for bringing us to a fresh start so that we can begin to address the trade problems that are so frustrating. We have had votes on some very frustrating legislation as a result of these frustrations.

So I welcome the Ambassador and hope that we can now begin, as I said, in a nonpartisan manner when we get something done in this committee, it's usually by working together. And I couldn't think of a better way to start than having you here.

Thank you, sir.

Chairman GIBBONS. Well, thank you, Ms. Kennelly, and Mr. Daub.

I want to say to all who are here and are not members of this subcommittee, you're always welcome. We appreciate your participation, and I hope that you'll spread the word among the rest of our colleagues that they're always welcome, too.

Mr. Ambassador, we'd be glad to hear from you now.

STATEMENT OF AMBASSADOR CLAYTON YEUTTER, U.S. TRADE REPRESENTATIVE

Ambassador YEUTTER. Thank you very much, Mr. Chairman. It's really a pleasure to be here; it's always nice to come back and

report to my bosses on Capitol Hill, as you suggested, and I appreciate the opportunity for an interchange with all of you.

Before I comment, Mr. Chairman, I would like to commend and thank every member of this subcommittee for their spirit of cooperation and support over the last several months since I have been back in Washington, DC. I've had a lot of contact with the members of your subcommittee, both personally and through correspondence; it's all been in a very positive vein on both sides of the political aisle, and I want you to know that that's deeply appreciated and we intend to reciprocate in kind. So the working relationship has just been superb, and all of us at USTR are grateful for that.

Mr. Downey, I can't resist the temptation to ask you how you feel about that Soviet-United States situation if they owe us money. [Laughter.]

That's only a rhetorical question.

I have a prepared statement, Mr. Chairman, but I'll simply have you submit that for the record.

Chairman GIBBONS. All right, sir.

Ambassador YEUTTER. Perhaps in the interests of time, I could just very briefly summarize what's been happening since I last appeared before you in a very general way, and then we can go to questions.

Chairman GIBBONS. Without objection, we'll accept your statement and put it in the record immediately following your remarks.

Ambassador YEUTTER. All right. Thank you, Mr. Chairman.

I thought I might just divide my verbal comments up into two parts: one, some of the shortrun kinds of activities that we've been involved with lately, and then a little longer term look into issues like the new GATT round, and then we can have whatever questions you might have.

In terms of shortrun issues, though obviously this has long-term implications, there's a lot of interest at the moment in exchange rate relationships. That situation has altered dramatically since last summer, particularly since September when Secretary Baker hosted the meeting of the G–5 in New York and some coordinated intervention in the currency markets emerged from that session. Since then there have been other changes in macroeconomic policy. The consequence of everything that has occurred in that arena over the last several months is that the dollar has weakened appreciably vis-a-vis the major currencies of the world. In fact, compared to last February—about 1 year ago—when the dollar peaked out, I would suppose the numbers now would be something like a 30-percent decline as compared to a package of the major currencies; maybe a little bit more than that. That's certainly an encouraging development from the standpoint of U.S. trade because American business firms have been attempting to operate in the face of an inordinately strong dollar for a long period of time. And as all of you very well know, that has caused a great deal of economic consternation among our import-sensitive industries and also our export-dependent industries.

So there's some good news on the exchange rate front. In my judgment, we've not yet reached an equilibrium point where we would balance off the $150 billion trade deficit that we have, but

it's certainly healthy to have the dollar 30 percent below where it was a year ago rather than 30 percent above or even flat. So it's a commendable trend.

Some have begun to express concern about the future movements in the dollar and future exchange rate relationships, and I just want to say to you this morning that I see no differences of opinion on this subject between myself and Chairman Volcker or Secretary of the Treasury Baker. I really believe we're all operating on the same wavelength. We would like exchange rates to reflect the underlying economic fundamentals of the world, and we'd like them to reflect the basic market forces that are involved in determining these relationships. If the dollar moves further in accordance with the underlying fundamentals, we'd simply like that to happen in a gradual and orderly way; and if that occurs, we should all be prepared to accept the results of that exercise and, hopefully, the outcome some months hence will be a significant improvement in our trade balance.

I can expand on that or embellish, if you wish, later in the questions.

Also on the short-term front we might comment about fair trade practices—or perhaps, more accurately, unfair trade practices, Mr. Chairman. As you know, we in the administration have initiated a number of section 301 actions which call upon other nations in the world to correct what we deem to be unfair trade practices lest we retaliate against those. This is the issue that Mr. Schulze was raising in his comments just a few minutes ago.

I am pleased to report to you, Mr. Chairman, that the section 301 activity, which is clearly much more aggressive than the U.S. Government has traditionally followed, is paying some dividends. This will not alter our gigantic trade deficit in a material way, but it's still important to do. It seems to me it's imperative that we send the right kinds of signals to our trading partners around the world and let them know in no uncertain terms that we are not tolerant of unfair trade practices and that we're going to respond in an aggressive fashion to such practices when we find them.

Just to do a very rapid review of some of the actions that have been involved in that area in the last several weeks, one of them was the acceleration of a dispute with the European Community over canned fruit. That one was settled on December 1 in a manner totally satisfactory to us, where the Community agreed to withdraw their subsidy practices on canned fruit.

One of them was in leather, another longstanding dispute with the Government of Japan. That one was settled in late December, also in a manner totally satisfactory to us. We were not pleased with the degree to which the Government of Japan was willing to open up its markets to our leather producers, but we were pleased with the compensation that ultimately emerged, including some excellent additional market opportunities for United States industries in Japan. One of the principal beneficiaries was the United States aluminum industry which, for many years, has found it very difficult to penetrate the Japanese markets, and we were able to negotiate a significant improvement in market access in Japan for aluminum and similar improvements for several hundred other items.

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But we felt, overall, that was a very satisfactory result of that particular 301 case.

We have two cases still pending with the Government of Korea. Those—one on insurance, a section 301 case involving services, and another on intellectual property, the patent/copyright/trademark issues. Those are under intensive negotiations at the moment and we're really quite optimistic that those two disputes will be resolved in the next 30 to 60 days. We're nearing resolution of the insurance dispute and, in my judgment, we're not terribly far from resolving the intellectual property disagreements with the Government of Korea.

In a case that was begun by United States industry, we were able—in cooperation with the motion picture industry of the United States—to negotiate a satisfactory settlement of problems they were having with Korea on distribution of motion pictures in that country. We had a similar dispute that did not reach section 301 proportions with the Government of Colombia, and that one was also settled, just in the last few days.

On another dispute that's been around for a long period of time—that is citrus with the European Community—we have negotiators in Brussels this week and we're cautiously optimistic about that one and quite hopeful that it will be resolved within the next few weeks.

That really leaves, among the major existing section 301 disputes, only the issue of informatics with Brazil, and we've made very little progress in that one to date. We're certainly not prepared at this point to conclude that it will be an unsuccessful exercise. In my judgment, the overall result of the more aggressive use of section 301 is clearly very positive with a very strong record of successes to date.

Turning for just a minute, Mr. Chairman, to the longer term picture, as you know, we've been working diligently toward the initiation of a new round of GATT negotiations in Geneva. That, too, was a challenging exercise in terms of relationships with some of our trading partners around the world; but in meetings during the last 2 or 3 months of 1985, we were successful in getting the member nations of the GATT to agree on a definitive timetable for a new GATT round, and that's certainly an encouraging development, as well.

As you know, Mr. Chairman, the preparatory committee is now at work with a July 15 reporting date. We're participating in those discussions in Geneva on a continual basis, and we hope that that preparatory committee will come forth with a sensible agenda for a new GATT round when it makes its recommendations on July 15. Those recommendations will come to me and my counterparts around the world in a ministerial meeting that is scheduled for September somewhere in the world—place yet to be determined—that will officially launch the new GATT round if all stays on schedule.

We have articulated what we consider to be among our major priorities for a new round insofar as the interests of the United States are concerned. I will simply mention those very briefly and we can expand on those in the questions, too, if you like.

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One of them is the existing dispute settlement mechanism, which we find wanting in many respects. Another is the safeguard provisions which were negotiated during the Tokyo round but never satisfactorily completed; we'd like to see those brought to a satisfactory conclusion relatively soon. One of them is this entire area of intellectual property rights, which is becoming more and more troublesome for everyone. A portion of that subject matter area was discussed in the Tokyo round, counterfeiting; in fact, a code was almost brought to fruition at that time, but not quite. We'd like to see the new GATT round finish off the counterfeiting code and then do some things in the other intellectual property areas, as well.

The United States has been in the forefront of discussions of services, which are now more than half of our GNP. We'd like to see major progress made in that area.

Another new area which hasn't had any attention in the GATT heretofore is investment. We believe it's an appropriate, propitious time to look at the possibilities to improve the invest environment internationally.

The whole area of what we've been calling natural resources, Mr. Chairman, deserves attention; this is one in which you have a great deal of personal interest. In my judgment, that issue—broadly defined—merits attention in a new GATT round.

We also need to reappraise the progress that has been made in implementation of the nontariff major codes that were negotiated in the Tokyo round. There clearly are improvements necessary in some of those, and an extension of their jurisdiction beyond what prevails to date.

And there are a number of other issues that merit attention in a new round. My judgment is that this is just tremendously important to the United States and to the American business community, and we ought to move forward with it just as promptly as possible.

On the bilateral scene, I would simply add comments on two or three aspects. One would be the United States/Canada negotiation which, as you know, is pending before the Congress in terms of the fast track provisions that are in the law. The 60 working days of congressional attention to that issue will expire in May or June, and we can hopefully then move forward with what will truly be a very major negotiation with the Government of Canada leading toward free and open borders between our two nations. That will be a significant negotiating exercise, indeed.

Congressman Jenkins and others are tremendously interested in what's happening in textiles; as you know, the multifiber arrangement is due for renewal at the end of July of this year. We are in preliminary negotiations on that subject at the moment. We'll have intense negotiations as the July deadline approaches. We have now articulated internally our own strategy for those negotiations; we'll not share that with the rest of the world, obviously, but we do believe that we have our own act together in terms of our objectives in that arena.

We also have a lot of bilateral discussions going with the Government of Japan presently on a whole host of subjects—the so-called MOSS negotiations; the first round of MOSS negotiations was sub-

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stantially completed by the end of the year, although there is some follow-up required on those. We intend to have some additional MOSS negotiations beginning in the relatively near future; and, of course, we are also in the midst of a major semiconductor 301 case with them right now. That is one of the 301 cases I neglected to mention earlier in my testimony. We have intense discussions going on with the Japanese on that subject at the moment, and plan to have an American proposal on the table in Japan for discussion by Deputy USTR Mike Smith, with them the first week in March.

That's a quick tour of the horizon, Mr. Chairman. That ought to whet the appetite of the subcommittee for some questions.

[The prepared statement follows:]

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TESTIMONY ON U.S. TRADE POLICY

DIRECTIONS FOR 1986

Ambassador Clayton Yeutter
United States Trade Representative

Before the Subcommittee on Trade,
Committee on Ways and Means
U.S. House of Representatives

Mister Chairman and members of the Subcommittee, I am pleased to appear before you today to discuss U.S. trade policy and priorities for 1986. This is my first opportunity to appear before this Subcommittee to discuss the challenges facing U.S. trade internationally and our efforts to deal with them. I welcome the opportunity to formally open this dialogue with you. There are no quick-fixes to the issues we will touch on today. I look forward to working with you in the coming months as we explore these questions in greater detail.

At the time I assumed my current responsibilities, the Administration was under attack both for not having a clear sense of our international trade interests and for not adequately protecting those trade interests in individual situations. Our efforts I believe speak for themselves in dispelling that notion. Trade has consumed an enormous amount of the Cabinet's time and energy and has been an almost constant topic of discussion at the Sub-Cabinet level.

I believe those efforts have started to pay off. Notably:

- The President has clearly and boldly outlined the Administration's trade policy objectives and released an action plan for realizing those objectives.

- The Administration has asserted to the rest of the world in unmistakable terms that we are determined to create a "level playing field" for U.S. business firms. This message has been most forcefully conveyed by our self-initiation of Section 301 cases and targeted mixed credit export financing offers.

- In conjunction with our principal trading partners, we have begun major initiatives to promote stronger and more balanced international economic growth, with much improved coordination of macroeconomic policies.

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Before describing the elements of that program in more detail for the Committee, I want to emphasize a very important point - the Administration's strategy is geared to providing long term solutions, not a few flashy short-term accomplishments which treat symptoms rather than causes. Progress has been made but I would be the first to acknowledge that there is much yet to do to alleviate our trade difficulties and restore a sense of fairness and equity to the international trading system.

The Administration's Trade Program

On September 23, the President announced a comprehensive set of proposals for dealing with America's trade problems. The principles underlying the Administration's program are set out in detail in the "Statement on International Trade Policy" which I hereby submit for the record.

I would only want to emphasize one key principle - this Administration is, and will remain, committed to the creation of an open and fair trading system. President Reagan is not a protectionist and never will be, and neither will I. Protectionism will destroy the economic vitality of America's economy. It would stifle competition, retard innovation, reward the inefficient, cost jobs, invite retaliation and lower America's standard of living. Since the end of World War II, the U.S. has been a leader in promoting a more open and equitable trading system. With all the flaws in the system, the Administration will continue to work, singly or in concert with our trading partners, to renew and restore the system.

As I will describe in a moment, the international trading system is not the cause of all our trade problems and we must be realistic in our assessment of the extent to which the trading system can solve our problems. Our plan is to ensure that free trade is fair trade, to strengthen and revitalize the international trading system and to deal with other factors, including macroeconomic conditions, affecting our trade deficit.

A. Unfair Trade

The President initiated an agressive program in pursuit of our long-standing commitment to fair trade as a prerequisite for free trade. Since that time, further actions have been taken to advance this principle. Among the steps which we have taken are:

-- the unprecedented self-initation of Section 301 unfair trade cases against Brazil, Korea and Japan.

-- the establishment of clear deadlines in long-standing disputes with the EC and Japan.

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-- the submission of legislation to create a $300 million fund to increase U.S. leverage in negotiations to eliminate predatory tied aid credit financing.

-- the self-initiation of an antidumping investigation against the sale of certain semiconductors at less than "fair value" based on the recommendation of the interagency Strike Force chaired by Commerce Secretary Baldrige.

-- the publication of our first extensive study of foreign trade barriers, in accordance with Section 303 of the Trade and Tariff Act of 1984. This report goes beyond unfair trade barriers to cover all significant barriers to trade.

-- the retaliatory imposition by the President of higher tariffs on EC pasta exports to the United States as a result of the unwillingness of the European Community to compensate for the injury to U.S. citrus exports from EC preferences to Mediterranean countries.

These actions represent only the initial step in our efforts to ensure that trade is both free and fair. We will take additional actions if and when conditions require.

Actions taken to date have already yielded substantial results. However, I am told that some of our actions may have gone relatively unnoticed on Capitol Hill. I would therefore like to briefly review what has occurred.

-- We reached agreement with Taiwan to eliminate their long-standing barriers to U.S. exports of beer, wine and tobacco.

-- The Government of Korea has eliminated practices which limited the access of the U.S. motion picture industry to the Korean market.

-- We concluded long overdue disputes with the EC on canned fruit and with Japan on leather and leather footwear. In the former case, the EC agreed to eliminate its production subsidies on canned fruit. In the latter case, the agreement we fashioned achieved some improvement in our access for these products, Japanese concessions in other products, and final balance through the withdrawal of U.S. tariff concessions.

-- Eximbank has approved eight tied aid credit offers out of existing authorities while Congress continues its consideration of the "war chest" bill. In addition,

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Control Data Corporation succeeded in winning a transaction in India which may ultimately be worth $450 million.

-- We have negotiated agreements in the nuclear and large and small aircraft sectors which prohibit the use of tied aid credits. Negotiations on comprehensive tied aid credit discipline continue.

-- The U.S. has successfully negotiated modifications to Japanese practices in the medical/pharmaceutical industry and the telecommunications industry as a part of the MOSS process. Several significant measures have been implemented as a result of the MOSS electronics talks, but the overall outcome in this sector will not be clear until the semiconductor Section 301 case has been resolved. We are not completely satisfied in the progress on forest products, particularly in regard to the depth, coverage and timing of tariff reductions. We believe that the changes create the potential for significant opportunities for U.S. business, although the ultimate value of the changes made can only be assessed in the light of actual sales experience.

I would also like to dispel another often heard criticism of the Administration - that it is unwilling to provide import relief to American industries. Under Section 201 of our trade law, the record demonstrates otherwise. Eleven Section 201 cases have been filed since the Administration took office. Of those eleven cases, the International Trade Commission found no injury in six. Of the five remaining cases, the President granted import relief in two -- to heavyweight motorcycles and specialty steel. In the case of carbon steel, the President took alternative action to resolve the problem. Only in two cases -- copper and footwear -- did the President reject import relief. In the copper case, many more copper fabricators' jobs would have been lost than miners' jobs saved. In the footwear decision, the industry failed to show that relief would have improved their international competitiveness. This seems to me to be an impeccable record in administering Section 201, rather than one subject to criticism.

As part of our general review of trade policy, we will continue to consider legislation that would help us promote free and fair trade. In line with this, the Administration is reviewing proposals for changes in, and additions to, U.S. trade laws. The proposals which will get increasing attention during the year include: new trade negotiating authority, revisions to our laws protecting intellectual property, export promotion initiatives, and various amendments to our antidumping and countervailing duty laws. The administration has also proposed significant reforms in the antitrust laws that will enhance the

international competitiveness of U.S. firms. The Administration will very likely support a number of such changes. At the same time we will not allow desirable changes to be held hostage to counterproductive, protectionist measures. I look forward to working with the Committee in a constructive way on these delicate issues.

B. A New Round of Multilateral Trade Negotiations

It is imperative that we launch a new round of multilateral trade negotiations in the coming months. In our view, the initiation of a new GATT round is the best way for the 90 member countries of the General Agreement on Tariffs and Trade to achieve fairer trade, improve access for exports, provide more effective dispute resolution, and strengthen the fabric of the international trading system. All trading countries have an important stake in developing a comprehensive agenda to reform the GATT, make it relevant to the problems of today's trading environment, and ensure its capacity to deal with new problems as they arise.

During the past four decades, the GATT has served the world well as a framework for international trade negotiations and the conduct of international commerce. Under GATT auspices, successive rounds of multilateral trade negotiations have led to substantial trade liberalization and an enormous increase in global trade.

In recent years, however, this discipline has been crumbling under the combined pressures of global recession, debt crises, fluctuating energy prices, and volatile exchange rate movements. While a positive development, the non-tariff barrier codes agreed to in the Tokyo Round (covering government procurement, customs valuation, standards, licensing and subsidies) were only a first step. The Tokyo Round and previous trade negotiations failed to develop workable rules or meaningful discipline over such critical issues as dispute settlement, safeguards, agriculture, market access and subsidies.

The fundamental reason we need to launch a new round of multilateral trade negotiations in the coming months is to develop workable rules and restore discipline in all these areas.

Over the past 18 months, USTR has begun an intensive series of consultations with our private sector advisors to identify U.S. negotiating objectives and priorities. While there still remains a great deal of work to be done, these consultations have identified the following key objectives:

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Dispute Settlement

One of the major functions of the GATT is to resolve disputes between its member countries. The existing dispute settlement process has resolved or helped to resolve a large number of disputes. However, some conspicuous failures, particularly in recent years, have undermined public confidence in the system. Any dispute settlement mechanism cannot substitute for a sound framework of rules, nor can it repair a faltering international consensus. However, a good dispute settlement process is a necessary element in the trading system.

As part of the new negotiations, we will seek specific improvements in dispute settlement procedures to ensure that countries have every opportunity to resolve their differences in a timely manner through consultation, mediation or arbitration. In those cases where the two countries choose a panel to help resolve the dispute, we want to ensure that non-governmental panelists can be chosen, that strict time limits are set for each phase of the panel process, and that the panel reports contain clear and concise recommendations for action. To my mind, this is one of the top priorities for the United States in the new round.

Safeguards

The term safeguards refers to the emergency actions taken by governments to protect domestic industries from an influx of imports, thereby giving them time to adjust to competition. This issue has been identified as a matter for priority treatment in the new round, in part because it is a concern of developing countries, and in part because of widespread concern that most current safeguard practices have little to do with the disciplines of the GATT. In fact, the GATT Secretariat staff has identified some 94 safeguard-type actions taken outside the relevant GATT provisions.

In the new negotiations, we seek to develop a comprehensive agreement over the use of all safeguard actions, including voluntary restraint agreements and orderly marketing arrangements. Our major objectives are to ensure that such measures are transparent, remain temporary, and contribute to -- not retard -- adjustment, without shifting the burden of that adjustment on to other trading countries.

Agriculture

It is time that we put an end to the chaos in trade in agriculture. Trying to treat agriculture with a different set of rules from trade in industrial goods has produced

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nothing but turmoil, inequities, and massive distress for farmers in this country and around the world.

Specifically, we have to eliminate export subsidies over time and tear down the multiple barriers to agricultural import markets in both developed and developing countries.

Tokyo Round Non-Tariff Barrier Codes

Not surprisingly, the first effort to negotiate meaningful international disciplines over non-tariff barriers was not totally satisfactory. What we need to do now is build on our experience with the codes over the past six years, expand participation, update certain provisions, and strengthen and improve their operation. We want to give particular attention to the government procurement, aircraft and subsidies codes.

Market Access

While the primary focus of the new negotiations will be on developing new rules and disciplines over trade policies and practices, we anticipate there will also be some classical swapping of concessions to reduce tariff and non-tariff barriers to trade. We have asked our private sector advisors to provide us with a listing of specific barriers that they want to see reduced or eliminated. Once we receive their input, we will develop a strategy to meet as many of their requests as possible.

We will not pay again for concessions supposedly received in previous rounds, and we do not intend to distort the overall balance of concessions we have with our trading partners.

Intellectual Property Rights

Piracy, misappropriation and infringement of others' intellectual property is causing severe trade distortions, and is a growing trade problem. It is a critical issue for the future of world trade as the technologies and innovations these rights promote will help determine tomorrow's trade patterns. The GATT has already undertaken work with respect to trademark counterfeiting. We will encourage rapid completion of the GATT work on counterfeiting in the New Round.

Deficiencies in protection in the areas of patents and copyrights and protection for new and evolving technologies such as biotechnology and computer software must also be addressed. Some have criticized our approach to this issue

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because of concerns about the competence of existing international conventions and the current efforts of the World Intellectual Property Organization. We are not interested in duplicating the very important work of these groups. We do believe that the GATT can make an important contribution by developing the most effective and enforceable mechanism for disciplining government policies.

Investment

Government investment policies can have a dampening and distorting impact on world trade. The adverse effects of these measures are comparable to those created by tariffs and non-tariff barriers such as quantitative restrictions. When governments unnecessarily restrict the ability of a firm to establish itself, they deny consumers the benefits of services and goods that would otherwise be produced. Like free trade, foreign investment, when responding to actual market conditions rather than distortive government policies, can make the economic pie larger. For developing countries facing long term debt constraints, increased flows of foreign direct investment are essential.

GATT procedures for addressing disputes and principles such as that of non-discrimination are relevant and important to disciplining the growth of trade distorting investment policies. The GATT's effectiveness in liberalizing world trade requires the discussion of this issue with a view to developing international discipline in this area as a part of a New Round.

Services

We also are seeking agreement under the auspices of the GATT on a framework of principles and procedures that would make trade in services as open as possible. Services is the fastest growing segment of our economy and is likely to continue to be so in the future. We need to act now to develop meaningful rules to discipline government actions that restrict or distort the movement of services internationally.

Let me say a few words about the preparatory process for the negotiations now underway in Geneva. At the annual meeting of the GATT Contracting Parties in November, the member governments agreed to establish a Preparatory Committee to organize new negotiations. The Preparatory Committee is charged with determining the objectives, subject matter, organizational details and participation in the negotiations. The Committee has met twice already, and has set out an intensive schedule of meetings

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through mid-July. At that time, the Committee is to make recommendations on the subject matter and organizational details, perhaps in the form of a ministerial declaration, and forward them to a ministerial-level meeting of GATT members for action. It was agreed that the ministerial meeting will take place in September.

We are pleased that the 90 members of the GATT have taken this important step towards strengthening the trading system. Although just a first, largely procedural step, it is an essential part of the process and will pave the way for Ministers in 1986 to take a formal decision on negotiations.

While the U.S. worked very hard to ensure this outcome, the decision by the GATT to establish a Preparatory Committee should not be seen as an achievement just for the United States. It is a victory for the GATT system itself, because reducing trade barriers and strengthening disciplines in the GATT will benefit all countries. The 90 members of the GATT have joined together by consensus in a step that recognizes the need to repair and restore the multilateral trading system.

Now, the very difficult work of identifying specific U.S. interests and objectives lies before us. The Administration will be intensifying consultations with our private sector advisors and with Congress as we move through the preparatory process over the next six months. To be successful the new round must strengthen and improve trading rules so that they work more efficiently and effectively for the benefit of all Americans and our trading partners.

Before leaving this issue, I would like to reiterate a point I have made before -- the U.S. will not be held hostage to the multilateral negotiating process. That process is but one way for the United States and other nations to achieve the crucial goal of increased economic growth through expanded world trade. There are other ways as well. The Administration is prepared to negotiate on a plurilateral or bilateral basis with like-minded nations. This path would become all the more important and urgent if the movement towards a new trade round is stalled, but we do not see it as a competitive exercise in any case.

An example is the recently concluded free trade area with Israel. As you know, we are now in the process of discussing a similar arrangement with one of our most important trading partners, Canada. Canadian Prime Minister Mulroney has proposed that we consider bilateral trade negotiations on the "broadest possible package of mutually-beneficial reductions in barriers to trade in goods and services."

President Reagan has welcomed the Canadian proposal, and he believes it offers an important opportunity for both nations.

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If we can successfully conclude such a negotiation, it could dramatically enhance the growth opportunities of both countries as they enter the next century.

We are, of course, now engaged in consultation with this Committee and other interested Members of the Congress, and with our private sector advisory committees. Some Members have already suggested that we delay free trade negotiations until our present bilateral disputes are behind us. But with the volume of trade that flows between the United States and Canada, we will always have bilateral disputes. We should not permit those transitory frustrations to blur the importance of improving long term trade relationships and opportunities. After all, a free trade arrangement with Canada would probably not be fully implemented until about the year 2000. That having been said, negotiations will only be worthwhile if both parties approach them in good faith. The prospect of negotiations cannot excuse otherwise unacceptable behavior on the trade front.

C. The Macroeconomic Climate and the Trade Deficit

Finally, and perhaps most importantly, the Administration has taken a number of steps to create an economic climate more favorable to U.S. trade. Chief among these are attempts to achieve increased and more balanced growth at home and abroad.

Even if all the world's trade barriers, unfair or fair, were eliminated, the United States would still have a large trade deficit. An inordinately strong dollar has reduced American export competitiveness over the past several years and has severely tested our import-sensitive industries. This, of course, has provoked the political turmoil of recent months which has been felt by both the Congress and the Administration.

We now have a $148.5 billon trade deficit. While all of us should be concerned about a deficit of that magnitude I believe the linkage that some would make between the level of the deficit and the conduct of U.S. trade policy is fundamentally misplaced. Reducing the trade deficit requires macroeconomic policy adjustments here and abroad.

Let me begin by drawing up a simple balance sheet for the U.S. economy in 1985 based on preliminary numbers. Out of their 1985 income, American companies and families saved an estimated $700 billion. At 17.5 percent of GNP, gross private saving last year was about in line with what the private sector has usually saved in recent years. This $700 billion was an amount fully sufficient to finance total gross private investment in the U.S. economy of an estimated $670 billion last year. There was even an extra $30 billion in savings left over in the private sector for purposes other than domestic investment. The government sector of our economy, however, needed, not $30 billion, but $140

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billion to finance spending in excess of its revenues. This $140 billion is the sum of a $60 billion surplus in state and local budgets and a $200 billion deficit in the Federal budget.

The difference between the $140 billion that government needed to borrow last year and the $30 billion excess in private saving over investment was made up by a net capital inflow from abroad of $110 billion.

This accounting exercise is simple but powerful, suggesting three possible paths to reduce the trade deficit. In the first case, a reduction in domestic investment might reduce foreign capital inflows and the trade deficit despite large Federal budget deficits. But this is a "solution" no one should want because it eases the trade deficit at the expense of domestic economic growth.

A second possibility is to increase private saving in the United States to be better able to afford both strong investment and large budget deficits. But if and when Americans save more, it would be preferable to have those savings contribute to a stronger economy rather than toward financing even larger Federal budget deficits.

The third and only realistic approach to reducing foreign borrowing and its contribution to the U.S. trade deficit is to lower our Federal spending and budget deficits substantially. In fact, our trade deficit could be dramatically reduced if the Federal budget deficit were sliced significantly. As recently as 1980 and 1981, for example, the United States had small surpluses in the current account while Federal budget deficits were slightly in excess of 2 percent of GNP as compared to the current level of roughly 5 percent of GNP.

The large inflows of foreign capital which we have experienced in recent years are also related to the relatively poorer performance of foreign economies compared to those in the United States. European economic growth has been mediocre at best. The EC's production is barely 7 percent above the level reached in 1979 while that of the United States is 13 percent higher. The poor outlook for European growth relative to the United States encouraged capital outflows from Europe to our shores after the 1982 recession.

Japan is another case. That country has recently relied inordinately on increases in its export accounts to stimulate growth. In the last three years more than one third of the growth of the Japanese economy has been as a result of the expansion of net exports rather than increases in domestic demand. Japan's current account surplus has risen from 0.5 percent of GNP in 1981 to nearly 4 percent last year. And the United States has been the principal recipient of increased

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Japanese exports. We want the Japanese to reduce their reliance on trade surpluses for economic growth by increased domestic economic opportunities.

Further convergence of economic performance is the logical complement to our efforts at reducing Federal budget deficits. Taken together these actions would increase demand for our exports and help assure that our economy would continue on a steady growth path even as Federal budget and trade deficits shrink.

Finally, management of the debt problems of a number of LDCs can play a significant role in complementing U.S. action to reduce its trade deficit. Initially, many LDCs reacted to large foreign debt obligations and reduced foreign credit availability by increasing protectionist and distortive trade policies. These compounded other market distortive domestic policies which were already in place when the debt crisis arose. The result has been injury to the long term growth performance of these countries, and continued reticence of private lenders and investors to increase their participation in the economies of high debt LDCs.

Many of the debtor nations have adopted measures to constrict domestic demand and initiate economic adjustment. Progress on the macroeconomic side must now be consolidated, with greater emphasis placed on structural measures to sustain growth. Some relaxation in trade restrictions has occurred. Policies to fully implement trade and investment liberalization and reform as a part of those programs will encourage growth and international trade.

Recognizing the macroeconomic contribution to our current trade deficit and the need for greater international coordination in correcting the global trade and payments imbalance, the Administration has taken a number of corrective actions in recent months.

First, the President's budget for fiscal 1987 meets the deficit reduction target set out in Gramm-Rudman-Hollings. In doing so it can contribute to the reduction of the U.S. trade deficit. I urge your support for the President's budget and final completion of work this year on tax reform along the lines of the President's proposal.

Internationally, the Administration has strengthened macroeconomic policy coordination with other major economies through the September G-5 agreement. The exchange rate of the dollar vis-a-vis other major currencies has been moderating since March 1985. The September agreement basically fosters the adjustments to domestic macroeconomic policies which would reinforce the strengthening of foreign currencies and lay the groundwork for a reduction of the U.S. trade deficit. Actions taken to stimulate the

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expansion of domestic demand in Japan and economic growth in Europe are now being complemented by much reduced oil-import prices. Our part of that agreement is to substantially lower our Federal budget deficits. If the macroeconomic pieces can all be brought into place with the added benefit of lower oil prices and interest rates, the outlook becomes good indeed for lowering the U.S. trade deficit in the context of an expanding U.S. and world economy.

Declining oil prices have also had a major impact on high-debt LDCs, helping countries like Brazil, hurting countries like Mexico. Secretary Baker's plan for LDC debt adjustment has emphasized strengthened economic growth policies in those countries and greater public and private lending and investing to facilitate their recovery.

Some have expressed dismay in not seeing a rapid improvement in the U.S. trade deficit following the moderation of the dollar's value. There is an important consideration to bear in mind on this point. Following a currency depreciation, so-called J-curve effects result in a nation's trade balance temporarily worsening before substantially improving. The reasons are well known. The currency depreciation quickly raises the price of imports while export prices are left unaffected, thus increasing the dollar value of the deficit. Over the course of a year to a year and a half, consumers and business begin to react to the price changes. In our case demand for imports will moderate while foreign demand for our exports will strengthen. With time these real volume changes will overcome the original price effects of the depreciation, and our trade balance will improve.
Because of these lags, I would not expect to see improvement in the trade balance until later this year, probably too late to significantly change the 1986 totals from 1985.

Conclusion

We in USTR have had spendid cooperation from other government agencies in our trade policy endeavors, and from the relevant Congressional committees as well. The United States now has what I believe to be a coherent, comprehensive trade policy and trade strategy. Nevertheless, our trade problems, and the political strains which accompany them, are by no means behind us. President Reagan and I look forward to working with you in our common desire to ensure that American and foreign firms play by the same rules in international trade and reap the benefits of a free and fair trade policy.

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OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

Administration Statement on International Trade Policy

September 23, 1985

The Administration's Basic Trade Principles

A policy of free and fair trade is in the best interest of the citizens of the United States and the world. Such a policy produces more jobs, improves the use of our nation's resources, promotes more rapid growth and innovation, and ensures a higher standard of living for Americans. Free and fair trade also advance our national security interests by strengthening the economic and political systems of our developed and developing country trading partners.

Despite these clear net benefits, pressures for protectionism persist and have been on the rise in recent years. Protectionism is costly and inimical to our nation's economic prosperity and security interests. Protectionist proposals for import surcharges or quotas, whether or not made for the purpose of political gain, are irresponsible and dangerous.

The United States plays the critical role in ensuring and promoting an open worldwide trading system. If the United States falters in the defense and promotion of a more open worldwide trading system, the system will be in danger of collapse, adversely affecting our national well-being.

The international trading system is based upon cooperation. Thus, our trading partners also have a major obligation to support a more open trading system. This obligation includes: dismantling trade barriers, eliminating subsidies and other forms of unfair trade practices and entering into trade liberalization negotiations in the GATT. Since World War II, we have made significant progress in moving toward an open worldwide trading system. Protectionism threatens to undermine that system. Our trading partners must join us in working to improve the system of trade that has contributed to the economic growth and security of ourselves and our allies.

America has never been afraid to compete. When trade follows the rules, and there is an equal opportunity to compete, American business is as competitive as any. This is fair trade and we will not impair it. When these conditions do not exist, it is unfair trade, and we will fight it.

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In its 1981 Statement on U.S. Trade Policy, the Administration indicated the high priority it would give to international trade. It emphasized the dual objectives of strengthening our private sector through the President's domestic economic recovery program and by pursuing open and fair trade internationally. Since then, real private investment has risen more rapidly than GNP, particularly in the case of producers' durable equipment, and now real plant and equipment investment accounts for a higher share of national output than at any other point in post-war history. This activity indicates that U.S. industry is re-equipping with the most modern and productive technologies available and is building a solid base to strengthen its long-run competitive position.

The Administration's basic policy approach has been to allow the operation of private market forces to the maximum extent possible. The results of this approach have been highly beneficial. Since 1980, private civilian employment has grown by 8 million. Manufacturing production has increased by 17 percent. Meanwhile, our nation's price inflation has dropped from double-digit levels (12.4 percent in 1980) to less than 4 percent. Ongoing efforts to strengthen our domestic economy through the restoration of noninflationary growth will help further strengthen our economy's performance in coming years and improve our international competitiveness.

Internationally, the Administration has stepped up efforts for a more open and fair system of global trade, in which market forces operate free from government restrictions and subsidies. The Administration has sought to reduce foreign barriers to U.S. exports, to counter foreign subsidy and other unfair practices abroad, and to use our legal authority to encourage our trade partners to live up to their obligations.

We continue to believe that open markets, based upon mutually agreed rules and equitable trading relations, are in our national interest.

Challenges of Expanding International Trade

The U.S. economy is becoming more integrated with the global economy. Our businesses, workers and various levels of government must increasingly take into account this fundamental fact. In 1985, U.S. exports and imports of goods and services will constitute approximately 21 percent of our gross national product. This compares with 13 percent in 1970 and only 9 percent in 1950.

The trend toward a greater role for international trade in our economy is irreversible. Rapid growth and change in the economies of other countries, both developed and developing,

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provide new and growing markets for our exports and sources of our imports. As a result, U.S. production and consumption activities are becoming more integrated with those located abroad.

The growing dependence on foreign markets of our industrial and agricultural producers, and the important challenge of foreign competition in our domestic market, make it imperative that we continue to foster a strong and internationally competitive domestic economy and a more open global system for trade and capital flows. This Administration accords a high priority to policies that achieve these objectives.

Accompanying the growing importance of international markets to our economy are increasing major threats to open and market-based trade. Extensive government intervention in the economies of our trading partners impair our ability to do business internationally. This Administration will continue to seek vigorously the liberalization of trade, industrial, agricultural, intellectual property, and investment policies overseas to enable our producers to increase exports and foster U S. growth and jobs.

We must also address protectionist pressures at home. Advocates of import surcharges or other forms of protection frequently cite our large trade deficit as an argument for restricting imports. They argue that our trade deficit is a drag on domestic economic growth. Yet, such an analysis is as wrong as its prescriptions. Protectionism simply benefits some industries at the expense of the rest of the economy. Fewer imports are offset by fewer exports; but the trade balance is not improved on more than a temporary basis. Protectionism drives up costs to consumers and misallocates resources within the economy. It also sets in motion a trade war psychology of retaliation and further market restrictions.

The best proof that free markets and free trade work is our own recent growth rate compared to the slower growth of the economies of our trade partners. Our trade deficit has become large; but at the same time, 8 million jobs have been created since 1980. Our robust growth over the last several years has stimulated demand for both domestic and foreign products. We must recognize that we could not have had our own vibrant growth without also creating a greater demand for imports. The availability of imports has served our interest by giving Americans greater choice and lower prices, and by helping to keep friendly nations economically stable.

In contrast to the robust economic growth and rising demand in the United States over the last several years, the growth of our trade partners has been generally slower. The wide differential between our growth and that of our trading partners has further contributed to our trade deficit (and our trade partners' surpluses). While our nation's industrial production

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has grown by 19 percent since 1982, the industrial output of our major developed country partners generally has grown much less --by 17 percent in Canada, by 2.5 percent in France, by 8 percent in Germany, by 9 percent in Great Britain, and by 1.4 percent in Italy. In contrast to the 8 million jobs created since 1980 in our country, there has been no net increase in employment in Europe for more than 10 years. Greater private investment spending in these and other countries would help close the gap between their growth and employment rates and ours. This, in turn, would help shrink our trade deficit by increasing foreign demand for our products relative to our demand for their products.

The international debt problems of many developing nations have cut into their ability to import from the United States. U.S. exports to highly-indebted developing countries in some cases have been cut by half since 1981. As these debtor nations adopt policies that shift their economies away from government-controlled to market-oriented decision making, and as they regain the confidence of the international business and banking community, their potential to grow will be restored and U.S. exports will once more expand to them.

The Administration will encourage debt-burdened LDCs to reduce government impediments to the functioning of markets in their economies, encourage production through market incentives to their business firms and employees, and substitute equity capital for debt by encouraging both domestic and foreign investment. These steps will enhance economic growth, thereby increasing debt service capabilities and re-establishing U.S. export opportunities.

The Dollar in International Markets

Since 1976, the dollar has risen substantially in value relative to the values of the currencies of our major industrial trading partners. Its rise has been fueled by an increased demand for dollar-denominated assets worldwide, reflecting the strong growth prospects and safety of investment in the U.S. economy. These capital flows have added to our productive resources and have helped to put a lid on inflation.

The increase in the dollar's value, while enriching our economy, has also placed additional impediments in the way of our exports and has acted to encourage imports. The Administration is concerned about the effect of the dollar's rise in value on our ability to compete internationally. Many U.S. producers have become less competitive relative to their competitors overseas because of the dollar's increase in value over the past 7 years. There are, however, no quick fixes for this situation. We should avoid attempting to limit the inflow of capital which seeks to take advantage of, and contributes to, the positive prospects

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for our economic growth. The dollar's strength, in part, reflects the relative strength of our economy.

An important contribution to moderating the dollar's rise would occur if the policies of our trade partners succeeded in accelerating the growth of their economies. This would importantly contribute to the growth of U.S. exports through both a gradual strengthening of their currencies and the effect of their expanded incomes on their purchase of U.S. products. The Administration is encouraging our trade partners to adopt policies that will accelerate their economic growth, and will urge Bonn Summit participants to act on their commitments to remove domestic rigidities and imbalances in their economies. We are not seeking old-fashioned "pump-priming" increases in government spending or inflationary monetary policies, but rather policy shifts such as expenditure and tax reductions, resource reallocation and financial market liberalization which would permanently increase growth opportunities.

Federal Expenditure, Tax and Regulatory Policies

The Administration's economic recovery program has provided incentives to invest, increase productivity and diminish inflation from the dangerously high levels reached in 1979 and 1980. The resulting reduction in interest rates, coupled with lower marginal tax rates for individuals and businesses, have encouraged investment and yielded a strong recovery with lower inflation.

The expansion of plant and equipment investment since 1982 has been the most rapid of any economic recovery in the postwar period. Investments being made today will result in long-term enhanced U.S. competitiveness both in our overseas and domestic markets.

It is important to our international competitiveness to maintain, under our tax policies, the stimulus to saving and investment. The Administration has retained, as part of its tax reform proposal, the elements of our tax code that are favorable to individual and business saving and capital investment -- including reduced individual and corporate tax rates, indexed depreciation of assets, and the tax credit provision for research and development expenditures. The President's tax reform proposal is essential to strengthening the economy and making U.S. businesses more competitive in international markets.

Another major Administration initiative -- to reduce federal expenditures -- is also important to the improvement of our international competitiveness through a moderation of the dollar's value and the reduction of the claims that such expenditures place on the nation's resources. Government spending, whether

financed by taxes or borrowing, drains resources from the private sector, requiring the importation of many billions of borrowed capital funds and contributing to raising the value of the dollar.

The high level of federal government expenditures also has other negative effects on our nation's international competitiveness. It has prevented interest rates from being further reduced. Unless government expenditures are brought back in line with historical levels, resources will be diverted from expanding investments in the private sector. The American business community has repeatedly indicated that the financial cost of capital is a major problem for U.S. companies competing in world markets. We must bring interest rates down further by reducing federal government spending.

The Administration has made great efforts to persuade the Congress to reduce federal expenditures substantially. Such reductions would not only benefit our domestic economy, but also substantially improve our international competitive standing. Interest rates could be further reduced, more resources would be released to more productive uses in the private sector; and, very importantly, we would expect to see a change in the level of the dollar that would benefit U.S. export and import-competing industries. We must recognize, however, the possibility that a reduction in the government budget deficit may not lead to a rapid and substantial decline in the value of the dollar, particularly if domestic and foreign investors perceive such an accomplishment as further increasing the attractiveness of U.S. assets. Nevertheless, tighter control over federal expenditures and greater public sector efficiency would improve the performance of the economy and our international competitiveness.

The Administration is also committed to work to reduce the burden of federal regulations that unnecessarily hamper U.S. economic growth, productivity and exports. On the export side, the Administration sought and obtained legislation in the form of the Export Trading Company Act of 1982, allowing banks to participate actively in the formation of export trading companies to facilitate U.S. exports of goods and services. The Administration will continually review the operation of this Act, and propose further modifications if there is a need to do so.

In the domestic regulatory area, introducing more competition into previously regulated sectors will increase productivity and our international competitiveness. The Administration will also consider trade implications when reviewing proposed regulations and when developing further deregulation initiatives. We will examine the use of the trade leverage created by its deregulatory

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process to seek to open foreign markets, thereby minimizing the problem of free rides for foreign suppliers.

Increasingly, the international competitiveness of U.S. industries depends upon the protection of U.S.-generated intellectual property (patents, copyrights and trademarks). The Administration will increase efforts to protect U.S.-generated intellectual property; we will accelerate on-going work in this critically important area with a view toward possible Administration legislative and administrative initiatives. In a related area, the Administration is implementing an important new program aimed at increasing the rate of commercialization of new products and processes created by the federal government's investment in research and development. The Administration is vigorously implementing laws giving universities and small businesses ownership of technology developed with Federal funds.

The Administration is also reviewing, and will seek to amend where warranted, anti-trust laws or regulations that impede our international competitiveness.

International Financial and Development Policies

The Administration is also actively supporting U.S. trade interests by pursuing initiatives in the international financial and development policy area. At recent economic summit and ministerial meetings, we have urged our foreign partners to pursue economic growth-oriented policies. This would reduce the U.S. trade deficit through increased demand for our exports, and would also provide additional export opportunities for debt-ridden LDCs.

The Administration actively supports the efforts being coordinated by the International Monetary Fund and World Bank to help strengthen the international financial system and promote economic development.

To this end, the United States is prepared to consider the possible value of hosting a high-level meeting of the major industrial countries, to review the various issues involved in transforming the findings of the Group of Ten into appropriate action. Such a meeting could build on the G-10 studies by considering, in a cooperative fashion, the policies and performance in the major industrial countries, and how these can be improved to promote convergence toward noninflationary growth.

U.S. exports have suffered in recent years as a result of the external debt crisis affecting a number of developing countries. Conditional IMF financing programs can assist debtor

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countries in making a transition to sustainable growth. To this end, it is important that the United States support IMF efforts to seek macro and micro-economic policy reform as part of financial assistance packages negotiated with debtor countries.

The Administration believes that reform of trade and investment policies should be part of the policy reforms being negotiated by the IMF as part of conditional financing programs. Reduced export subsidies and liberalized trade barriers will benefit many developing countries' efforts to improve economic efficiency and accelerate economic growth. The Adminstration continues to press for these reforms in its representation and voting in the IMF. Such efforts will contribute to a more open and healthy international environment for U.S. and developing country trade and growth.

In its relations with the World Bank, the Administration has been pressing for expanding the role of the private sector in promoting long-term economic growth in developing countries. Administration support was instrumental in creating a $200 million private sector program affiliated with the Inter-American Development Bank.

The Administration believes that less government intervention in the economies of developing countries and fewer restrictions on domestic and foreign investment will greatly assist rapid development and growth of world trade. A liberalization of developing country restrictions on foreign investment can promote competition and reduce the inefficiency created by protected domestic monopolies, at the same time providing funds and productive capabilities to meet these countries' debt service requirements. The Administration supports the implementation of the Multilateral Investment Guarantee Agency recently negotiated in World Bank meetings, in order to help promote the international flow of investment. The Administration also encourages developing countries to stimulate investment by negotiating agreements to protect and give national treatment to foreign investment, and by increasing the level of protection given to intellectual property.

The Administration will continue to press the World Bank to assist in promoting market-oriented development policies. Price controls and subsidies often distort both development and trade and lead to wasteful uses of World Bank funds and the development of industries whose survival in the international marketplace depends upon continuing government aids. Such policies can also inflict damage on U.S. industries which are in competition with government-assisted foreign companies. We have supported a number of loans by the multilateral development banks in support of market and trade reforms in developing countries.

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Trade Policy: Ensuring Better Access and Fairer Trade

U.S. trade policy must be based on a realistic appraisal of the competitive position of the United States in the world economy. Clearly, our nation remains strong and vibrant, the economic leader of the free world with a political leadership role based on that strength. To carry out this role we must continue to devote our efforts in creating conditions of open and expanding international trade that will contribute to global prosperity.

The Administration reaffirms its basic trade policy position as enunciated in its July 8, 1981 statement. In accordance with that position, the Administration will continue to pursue more open access to markets abroad for U.S. exports and fairer conditions of trade, while opposing policies at home and abroad that are protectionist. We seek substantial trade liberalization from our major developed and advanced-developing country trade partners that will open more markets to U.S. products. The United States will take the initiatives necessary to achieve more equitable access in a number of foreign markets, particularly in Japan and major developing countries.

Our trade policy must combine concerted efforts with our trading partners to attain more open conditions in the world trading community over the long run with a willingness to take short-run steps, as necessary, to ensure fair competitive conditions for U.S. business firms.

Other nations must understand that the political support in the United States for maintaining and building a more open trading system will be impossible to maintain if progress in achieving more open and fair trade abroad is not made soon. The United States will always approach international trade issues in a determined, but non-confrontational, way. But, if necessary, we will take action to achieve more open foreign markets and defend ourselves against unfair foreign trade practices.

The Administration will step up the use of the authority given to it by Congress to address foreign unfair trade practices which distort U.S. trade and investment, and it will vigorously pursue U.S. trade interests and rights under U.S. laws and the GATT, and will see that other countries live up to their trade agreement obligations with the United States.

Further, we will continue to vigorously enforce U.S. laws aimed at countering foreign dumping and subsidy practices.

Competition in international trade should involve business firms, not government treasuries. The diligent negotiation of improved international rules on export subsidies, is a high-priority endeavor of this Administration. Where such rules

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are absent, inadequate, or unsatisfactory in their implementation the United States will vigorously defend its exporters against the subsidy programs of other nations.

The Administration will accelerate its efforts to address the problem of foreign governments' financial assistance to exports, particularly where mixed credits are involved, while pressing for international agreement to eliminate subsidized export financing. So-called "mixed credits" arise when governments combine export credits with financial assistance grants of funds in order to lower the cost of credit on their export sales. Mixed credits are a significant and growing subsidies problem in the world trading system. The Export-Import Bank will begin an aggressive, targeted mixed-credit lending policy. At the same time, the Administration will seek a $300 million appropriation for grants to support up to $1 billion in mixed-credit loans.

In the last two years, the Administration has successfully reached agreements to limit interest subsidies in export sales of large aircraft and nuclear power plants. These precedents in international cooperation must be extended to the mixed-credit problem as well.

The Administration will be receptive to petitions from U.S. firms and individuals that present valid complaints about foreign unfair trade practices. The President recently announced that five cases would be initiated or accelerated under Section 301 of the Trade Act of 1974 to address unfair trade practices abroad. This is the first time that any President has taken this important step. The Administration will also take tactical measures aimed at eliminating unfair foreign trade practices and opening foreign markets, if efforts fail to resolve such issues through consultations. The denial or limitation of access to the U.S. market may be a necessary measure in this process.

The Administration supports the market-opening objectives of equitable access legislation but will oppose legislation that would require the President to close U.S. markets on the basis of sectoral reciprocity. The proper approach is to give the Administration authority to negotiate foreign barrier reductions. Further, the Administration will follow up on its report to the Congress on the subject of foreign industrial targeting by continuing to examine the potential problems created by foreign targeting and, where appropriate, possible remedies.

We will seek the removal of foreign barriers and distortions to U.S. trade in services and high technology industries (areas in which we have a significant worldwide competitive advantage) and to U.S. direct investment abroad. An important new trade priority will be to reduce and eliminate barriers to and distortions in U.S. trade arising from inadequate foreign protection

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of U.S.-generated intellectual property - patents, copyrights and trademarks.

In the agricultural trade area, the Administration will continue to counter foreign export subsidies which endanger our traditional overseas markets. The Administration will continue to explore possible uses of its export Payments-In-Kind (PIK) program to encourage our trade partners, particularly in Europe, to commit themselves to the elimination of agricultural export subsidies.

Occasional Temporary Safeguards and National Security

Free and fair trade is in the best interest of the citizens of the United States. Open trade produces more jobs, a more productive use of our nation's resources, more rapid innovation, and a higher standard of living. It also advances our national security interests by strengthening the economic and political systems of friendly nations. Protectionism, in the form of tariff surcharges or quotas, would be costly and contrary to our national economic and security interests.

It is, nevertheless, recognized internationally that nations may occasionally find it necessary to temporarily safeguard industries from serious harm caused primarily by a surge in imports. Occasional U.S. safeguard actions, taken in accordance with our trade laws, are consistent with our international obligations. They must, however, reflect the nation's overall economic or security interests. Relief must be determined to be in the national economic interest; it must also be temporary, decline over the period of relief, and offer the prospect of adjustment on the part of the U.S. industry so that it will be competitive after the relief is terminated.

Instead of protection, the Administration will examine ways to promote worker retraining. The Administration will review existing worker assistance programs in order to assure that they promote an effective human adjustment policy which contributes to the maximum capacity for change, mobility, and increased productivity. This review will include an assessment of: (a) training and retraining programs - sponsored by government, labor and business - on a comprehensive and continuing basis; and (b) employment service, job bank, training, and relocation support for displaced workers in order to minimize human cost and the loss of valuable skills.

The Administration reserves the right to respond to economic conditions internationally and to levels of import penetration that threaten domestic industries essential to our long-term national security. Furthermore, the Administration will vigorously enforce our export control laws in the interest of our own national

security. At the same time, the Administration recognizes the reality of foreign availability and the importance of our reputation as a reliable supplier. We are also aware that future technical advances by U.S. industry depend on maintaining the widest possible access to foreign markets and on fostering the widest exchange of scientific information.

International Negotiations to Improve Access and Achieve Fairer Trade

There is a great need to strengthen the international trading system through the cooperative efforts of the United States and its trade partners, in order to obtain better access and fairer conditions of international trade. There is a compelling need for overhaul of the General Agreement on Tariffs and Trade (GATT), which has provided the international legal framework for international trade over the past 40 years. The GATT's effectiveness has waned in recent years, primarily because its machinery and rules have not been adapted to current needs of the international trading community.

The GATT must be strengthened in the following areas: dispute settlement; discipline over import restraints (whether in the form of safeguards, and infant industry or balance of payments restrictions); and rules on the use of export subsidies. GATT negotiations must also achieve a vastly improved environment for the conduct of trade in agricultural products. Negotiations are needed to improve the non-tariff barrier codes which were initially developed in the Tokyo round. And the GATT must examine issues and extend its domain in areas which are increasingly important to international trade, including the protection of intellectual property, trade in services, and trade-distorting investment practices.

The United States has urged its trade partners to enter into a new multilateral negotiating round soon to deal with these issues in the GATT. Such a round would send a positive signal that GATT members reaffirm their belief in an open trading system and in the GATT as an institution capable of adapting itself to changing conditions. These negotiations should begin in early 1986.

While our highest priority remains the improvement of the world trading system through a new round of multilateral trade negotiations, the United States is interested in the possibility of achieving further liberalization of trade and investment through the negotiation of bilateral free-trade arrangements such as the one recently concluded with Israel. We believe

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that, at times, such agreements could complement our multilateral efforts and facilitate a higher degree of liberalization, mutually beneficial to both parties, than would be possible within the multilateral context.

The United States will give careful consideration to any serious proposal to enter into the negotiation of such agreements. The paramount factor in evaluating such proposals will be their economic value to the United States; we will not pursue any agreement which is not clearly in our economic and commercial interest. Finally, the prospects for significant progress in a new round of multilateral trade negotiations will also influence our deliberations on such bilateral initiatives.

The Administration will consult closely with Congress and with representatives of the private sector before entering into formal negotiations aimed at reaching any bilateral free-trade arrangements and it will also notify Congress of its intentions in accordance with existing U.S. law.

In addition to possible bilateral free-trade arrangements, the United States will undertake other bilateral efforts to improve access for U.S. trade and investment. These bilateral efforts could address specific or sectoral trade issues. Recently, the United States entered into sector-specific discussions with the government of Japan to improve access for U.S. producers of telecommunications equipment, medical and pharmaceutical products, electronics goods and forestry products. New sectors will be added that offer the promise of expanded U.S. exports.

The Administration also entered into discussions with the Japanese government to seek more open financial markets in Japan and a role for the yen which more closely reflects Japan's increasing economic importance in the world economy. We will be following-up on the implementation of commitments made by Japan in this area.

Other bilateral initiatives include market-opening discussions with advanced developing countries (for example, Taiwan and Korea) and initiatives to negotiate bilateral investment treaties with developing countries. Such treaties provide nondiscriminatory treatment, protection against expropriation, the right of free transfer of funds, the arbitration of investment disputes and the coverage of intellectual property of U.S. investors.

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Summary of the Administration's Trade Policy

At this time of major challenge to the future of U.S. and world trade, the Administration will carry out an active program to address the key elements of its trade strategy -- maintenance of a strong and growing domestic and international economy and more open and fair conditions for U.S. trade. In summary, the Administration will do the following:

Domestic and International Economic Policies

1. The Administration will, for the benefit of our international trade as well as our overall domestic economy, vigorously seek to bring federal spending under control. The Congress and public must clearly recognize the adverse impact of excessive government spending and budget deficits on the dollar's value and U.S. trade. As Congress wishes to contribute to reducing the trade deficit, it should focus its energies on cutting excessive spending and budget deficits rather than supporting protectionist legislation.

2. The Administration will continue to press for the adoption of the President's tax reform proposal, which is essential to strengthening our economy and making U.S. businesses more competitive in international markets.

3. The Administration will review, and will seek to amend, if warranted, our domestic anti-trust laws or regulations to the extent that they impede our international competitiveness.

4. The Administration will consider trade implications when reviewing proposed regulations and when developing further deregulation initiatives. The Administration will use the leverage created by its deregulatory process to seek to open foreign markets, thereby minimizing the problem of free rides for foreign suppliers.

5. The Administration will increase efforts to protect intellectual property rights (patents, copyrights, trademarks); we will accelerate work in this area with a view toward possible Administration legislative and administrative initiatives.

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6. The U.S. will encourage our trading partners to adopt policies that will accelerate their economic growth, thereby expanding our export opportunities. Specifically we will urge Bonn Summit participants to act on their commitments to remove rigidities and imbalances in their economies. The U.S. will also continue to use discussions in the IMF and OECD to pursue this strategy.

7. The Administration will encourage debt-burdened LDCs to reduce government impediments to the functioning of markets in their economies, encourage production through market incentives to their business firms and employees, and substitute equity capital for debt by encouraging both domestic and foreign investment.

8. The 1984 yen-dollar efforts toward liberalizing Japan's financial markets and internationalizing the yen will continue.

Free and Fair Trade Policies

9. Because the United States depends upon both exports and imports for its prosperity and because protectionism is costly and counterproductive, the Administration's goal will be to work towards a more free and fair trading system.

10. The United States will vigorously pursue its rights and interests in international commerce under U.S. law and the GATT, and will see that other countries live up to their obligations and trade agreements with the United States.

11. The Administration will continue vigorous enforcement of U.S. antidumping and countervailing duty laws.

12. In the past, the United States has initiated Section 301 unfair trade investigations only in response to formal petitions for action from U.S. industries. The Administration will, as appropriate, also self-initiate such cases to address foreign unfair trade practices.

13. Where export subsidy rules are absent, inadequate, or unsatisfactory in their implementation, the U.S. will vigorously defend its exporters against the subsidy programs of other nations. Also, the Export-Import Bank will begin an aggressive targeted mixed-credit lending policy. At the same time, the Administration will seek a $300 million appropriation for grants to support up to $1 billion in mixed-credit loans.

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14. The Administration will take tactical measures aimed at eliminating unfair foreign trade practices and opening foreign markets, if efforts to resolve such issues through consultations fail. The denial or limitation of access to the U.S. market may be a necessary measure in this process.

15. The Administration will support the market-opening objectives of equitable access legislation; but it will oppose legislation that would require the President to close U.S. markets on the basis of sectoral reciprocity. The proper approach is to grant the Administration authority to negotiate foreign barrier reductions.

16. The United States will continue market-oriented sector selective (MOSS) discussions with Japan. However, time limits will be placed on existing sector discussions, at the end of which specific commitments will be evaluated and follow-up procedures begun. New sectors will be added that offer the promise of expanded U.S. exports.

17. The Administration will follow up on its reports to the Congress on the subject of foreign industrial targeting by continuing to examine the potential problems created by foreign targeting and, where appropriate, possible remedies.

U.S. Export Promotion Policies

18. The United States will seek to reduce our nation's trade deficit through increasing exports instead of restricting imports.

19. The Administration will work with private sector advisory groups (e.g., the President's Export Council) to improve export promotion and to help U.S. companies expand their global marketing efforts.

20. The Administration will evaluate Federal export promotion activities during the fall budget review, and alter these activities as necessary to improve their effectiveness.

21. The Administration will again seek legislation to remove the export disincentives in the Foreign Corrupt Practices Act.

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Multilateral and Bilateral Trade Negotiations for U.S. Exports and Fair Trade

22. There is a great need for a more comprehensive disciplined and effective system of world trade rules. The Administration will maintain efforts to launch a new GATT trade round.

23. The Administration will examine possible bilateral and plurilateral negotiating opportunities, both to improve market access and enhance fairness and promote wider interest in the multilateral negotiating process.

Safeguards and National Security Policies

24. The Administration is committed to market-based solutions to trade problems, at home and abroad; but occasional exceptions may be necessary.

25. Import relief, when undertaken, will be transparent, temporary, time-specific, and will decline over the period of relief, and lead to international competitiveness.

26. The Administration will review existing worker assistance programs in order to assure that they promote an effective human adjustment policy.

27. The Administration reserves the right to respond to economic conditions internationally and to levels of import penetration that threaten domestic industries essential to our long-term national security.

28. The Administration will vigorously enforce our export control laws in the interest of our own national security. At the same time, the Administration recognizes the reality of foreign availability and the importance of our reputation as a reliable supplier.

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Chairman GIBBONS. I guess the first thing that concerns me in this whole picture is that we have put the Government of the United States on a rapid weight reduction diet, called Gramm-Rudman. How is Gramm-Rudman impacting on your operations?

Ambassador YEUTTER. Well, Mr. Chairman, we're prepared to live within the constraints of Gramm-Rudman because we believe that it's an important initiative from the trade policy standpoint. As you well know, the gigantic Federal budget deficit has adversely impacted our situation internationally, and whatever we can do between the Congress and the executive branch to bring down the size of the Federal budget deficit will clearly help. So among all agencies of Government, we ought to be one that's prepared to cooperate in a Gramm-Rudman endeavor.

It is, however, more difficult for us than it is for larger agencies of Government simply because we have a relatively small number of people and our budget is primarily personnel costs. And when we talk about cutbacks in an agency of 200 people or thereabouts that is about to engage in a massive multilateral negotiation and a massive bilateral negotiation with Japan, that pinches. We're probably going to have to have some additional help, Mr. Chairman, as those two exercises get underway. We've had discussions with the Office of Management and Budget about that; they're aware of those needs as they evolve. We'll be all right for fiscal year 1986 since we will probably not do a lot on those issues this year, but it will be a problem for us in fiscal year 1987 and we're going to have to beg, borrow, or steal some additional human resources to do that job right.

Chairman GIBBONS. Admitting first that there are always improvements that we can make in our trade laws that would help our trade balance, I would like to bounce this one off of you.

I have thought many times that if I had to make trade legislation or do other things to improve our trade balance, I would put the reduction of the budget deficit as the first priority. Is that your view? Is that the administration's view?

Ambassador YEUTTER. Yes, sir, on all counts. There's just no doubt about that, Mr. Chairman. The budget deficit has had a major impact on trade relationships between the United States and other nations over the past several years, and it's all been on the negative side. We would not have anything approaching a $148.5 billion deficit if we had our budget in line.

Chairman GIBBONS. Let me ask you. I know it's awful hard to quantify these things, but have you and the administration ever tried to quantify—or have you got any estimates—as to how much of our trade deficit is due to the side effects or the direct effects of the unbalanced budget?

Ambassador YEUTTER. There have been a number of efforts made in that direction, more outside the Government than inside; at least those that I've read, Mr. Chairman, have been done primarily by economists in the private sector. But the estimates that I've seen would range from 50 to 80 percent. My personal judgment is that it would be on the high side of those estimates; that is, closer to 80 than to 50.

Chairman GIBBONS. You talked about a timetable for international or multilateral bargaining in the GATT. When do you see us

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ever getting to an international bargaining agreement again, or into that stance? You talk about July 15 as a report date. Would you mind elaborating on that a little more?

Ambassador YEUTTER. Yes, Mr. Chairman. As you know, a preparatory committee—which is made up of all the GATT members—is now working on a proposed agenda. That committee is meeting in Geneva, Switzerland, essentially every week from now until July 15, and our Geneva delegation is participating in those discussions. And we also have some people from our Washington, DC, offices who are participating on a periodic basis.

This is really a very crucial time in that exercise because what's on the agenda when the exercise begins will have a significant impact on what ultimately emerges. Or, putting it another way, if issues of concern to the United States are not on the agenda, no progress is going to be made on those issues multilaterally in the next few years unless they are added to the agenda at a later time.

So we are intensely interested in the deliberations of that preparatory committee and we are obviously articulating our own priorities in an aggressive fashion. It may be that unanimity among the preparatory committee members will be impossible, and that some of those issues on which consensus cannot be reached will have to come to the ministers in September for final resolution of what the agenda will be. I personally anticipate that result; in other words, the preparatory committee will probably agree on 10 or 12 matters for negotiation in a new GATT round, and the ministers are going to have to sort through several others and determine on which ones there is sufficient international consensus to proceed. Once that decision is made—which, hopefully, will be in late September—we will immediately go into that negotiating process. I fully expect that those negotiations will commence before the end of the year—that is, shortly after the ministerial meeting in September—and we should be in full swing on those negotiations in 1987.

Chairman GIBBONS. I have a lot of things I want to talk to you about, and I want to tell all the committee members here that we're going to be very liberal on the 5-minute rule here today. I'll try not to monopolize the conversation.

I just want to say, Mr. Ambassador, that we're starting an oversight of the Caribbean Basin Initiative Program. Mr. Pickle, at my request, has accepted that responsibility and his committee is moving forward on that. We look forward to an accurate appraisal of what's happened down there.

I want to next ask you about our prospective agreement with our largest trading partner, Canada. I really think that there are very few things that we can do this year that are nearly as important as bettering our trading relationship with Canada. The largest trading arrangement in the world exists between the United States and Canada.

What kind of timetable is that arrangement on?

Ambassador YEUTTER. First of all, Mr. Chairman, just to comment on your CBI comment. As you probably know, President Reagan is in Grenada today and he will—while there, be meeting with high level government representatives of most of the CBI nations. The President's statement will be made a little later in the

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day, and it will have some trade implications that I cannot divulge at this point in time, but some clearly will be of interest to this subcommittee.

Chairman GIBBONS. Good.

Ambassador YEUTTER. With respect to Canada, I would hope, Mr. Chairman, that we could jointly conclude that bilateral negotiation within a 2- to 3-year timeframe. That will not, however, be easy to do because of the complexity of the issues. But we're certainly going to try that, and we'll work diligently toward that end.

Chairman GIBBONS. Well, I've got a lot more questions but we've got a large panel here and I want to give everybody an opportunity.

Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

Mr. Ambassador, I, too, would like to welcome you and congratulate you on the job that you've done. You've hit the ground with your feet running and we're all proud of the energy that you bring to the job.

I'd also like to congratulate you on the initiation of the 301's. It is having an effect. I would hope that, as soon as we settle these—and I believe they will be settled—we can go into phase 2. I hope you're working on them now, and will put the next round out. And I think the ripple effect—and the word will spread so that the message will go out henceforth, "deal equitably, and we're going to have a marvelous relationship; but keep playing those games and we're going to hit you between the eyes." I congratulate you and I urge you to continue in that vein.

Two questions on a couple of pending sticky areas. One is the 301 on steel with Sweden, and the other is semiconductors. Do you care to comment on either or both of those?

Ambassador YEUTTER. Certainly.

On the pending section 301 on steel with Sweden, as you may know, Mr. Schulze, the original petition was modified just 2 or 3 weeks ago, perhaps, which changes the deadline date for a decision by me as to whether that case will or will not be accepted. The original petition had some shortcomings, which is why it was amended, the principal shortcoming being that it alleged nothing but domestic subsidies, and there are limits to what we can do on the question of domestic subsidies under the existing GATT subsidy code. I have not yet read the revised petition but I am told that it now alleges some export subsidies as well as domestic subsidies, which clearly will make it a more attractive case from a section 301 standpoint. I do not, however, wish to prejudge that in any way because that's a very complex issue and the burden of persuasion is really quite strong. But our own people within USTR are evaluating the petitions right now. It's also being evaluated on an interagency basis, and recommendations to me will be made in the very near future.

Ambassador YEUTTER. Your second question?

Mr. SCHULZE. Semiconductors.

Ambassador YEUTTER. Semiconductors, Mr. Schulze, is an issue that we would like to resolve with the Japanese very soon. There's a tremendous amount of interest in that issue in the American business community and in the U.S. Congress, and justifiably so.

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In my judgment, Mr. Schulze, the semiconductor issue has importance far beyond semiconductors because the results of this case will establish the precedent for handling high-technology issues between ourselves and the Japanese for years to come, and perhaps between ourselves and all the rest of the world for years to come. And that's one reason why we're proceeding very carefully in the handling of that case. We're spending a lot of time on it in trying to come up with a solution that would be fair and reasonable and precedent-setting for a long time to come.

I really believe that we're making significant progress internally; that is, my judgment is that we're getting closer and closer to having the U.S. position very clearly outlined and rationalized. Whether we can convince the Japanese of the merits and wisdom of our position is another matter, but we'll know that much better after a meeting in Tokyo in early March.

Mr. SCHULZE. I think that you can go there with the assurance of an enormous amount of political support for your position, and you should make sure that they understand that. And if I were them, I would much rather be dealing with you than with us.

You know, my feeling is that GATT has almost reached the point that it's relatively worthless in the realm of international trade. Less than 10 percent of international commerce comes under GATT's aegis, and they have not been moving forward aggressively. I think it's time that you and we start looking at other mechanisms to govern, to control, to regulate international trade.

And I hope that as the committee goes to work on the agenda for GATT in Geneva, they understand that if they do not take up the tough questions which will set the basis of good, substantial action between now and the end of the century, that we will take unilateral action. I am convinced that the United States of America cannot sit by and pay lip service to a nice tea-and-cookie organization in Geneva. It's a marvelous debating society and it's a great academic exercise, but by God, the time has come for action. And if they don't understand that, if they haven't gotten that message, I would suggest that a few of us would be happy to go over there and say that in no uncertain terms.

Ambassador YEUTTER. Well, I would just respond to that by saying that I really believe they have gotten that message, but we ought to keep reinforcing it. I agree with you that the GATT is in a very critical period in its history. I said publicly in Europe a couple of weeks ago that I felt this would be the most important round of GATT negotiations since its inception simply because it will determine whether the GATT lives or dies as institution. I spent 2 hours with Arthur Dunkel, the Director General of the GATT, in Switzerland just a couple of weeks ago, and I delivered essentially that message to him at that time.

Mr. SCHULZE. Great. I appreciate that.

Let me also associate myself with the remarks of the chairman on our relationship with Canada and the bilateral negotiations. I think it's extremely important that we do work on this and take our time; and whether it is 2 or 3 years, I believe that this can set the basis of trade relationships around the world for the next several decades. We should do it without a great deal of rush and pressure or anxiety about just creating some kind of victory. It should

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be some long range document of which we can be proud for the next 10, 20, 30, 40 years.

Along that line, I think you know I have a resolution which will be before this committee. Have you taken any position on that, supporting the Canadian trade talks?

Ambassador YEUTTER. Well, obviously, we are enthusiastic about the potential of that exercise, Mr. Schulze, and appreciative of your own personal interest and involvement. We believe this could be the most significant bilateral trade negotiation the world has ever undertaken, and one of tremendous economic benefit for both countries. We do need to keep encouraging our Canadian friends to keep everything on the table. There is a lot of discussion, as you may know, within Canada about the desirability of removing certain issues, particularly cultural issues, from the negotiating agenda. And I've been saying to our Canadian friends that if either of us begins to exclude items from the negotiation before we even sit down at the table, it will make that negotiation all the more difficult to bring to a fruitful conclusion.

So I hope we can maintain as much on the table as possible.

Mr. SCHULZE. I agree with you.

I don't want to take too much time, but there is one other area, and that's taxes in trade and the relationship of taxes to trade, which concerns me greatly and is within the jurisdiction of this committee. I know it's a little bit out of your jurisdiction, but it certainly has to be one of which you're aware. Do you have any thoughts or guidance that you would like to give us, as we are in the midst—or just over the curb—on a major tax bill, of things we should be looking for or looking at or planning for the next decade or so?

Ambassador YEUTTER. Well, Mr. Schulze, as you know, it's a bit late to affect the tax reform bill on the House side of the ledger, but we may still be able to do it on the Senate side. And obviously, it may still come back here in conference. So the issue is of importance to the entire Congress.

Mr. SCHULZE. If I might interrupt, I really am disappointed with the product that came out of the House in its relationship to world trade. I think that should have been one of the major aspects of that bill, and I am disappointed that it was not.

Ambassador YEUTTER. I concur with that general assessment, Mr. Schulze, and I hope we can do some repair work on that legislation before it becomes law.

But just looking at it more from an academic or long-term standpoint than that particular legislation, I would respond to your question by saying that all of us need to be deeply concerned about the international competitiveness of American business. And to the degree that the action or inaction of Government impedes that international competitiveness, we really shoot ourselves in the foot. It's just impossible to ask the chief executive officers of American business firms to compete with their counterparts around the world if we, the U.S. Government, in some way tie their arms behind their backs. And regrettably, we've often done that in tax legislation and in other ways—regulatory programs, for example, antitrust restrictions, and others. We have to be much more conscious, as you already know, Mr. Schulze, of the fact that we're

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living in a global economy, and that there are very few domestic markets any longer. They are global markets. And if we're going to exist in a global marketplace, we have to provide American business with the tools to compete in that kind of an environment. And turning it around to the issue which you raised, we have to make sure that we do not throw roadblocks in their path. And my judgment is that tax policy has a lot to do with international competitiveness, and we ought to give that very careful consideration over the next decade.

Mr. SCHULZE. Thank you, Mr. Ambassador.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, Mr. Schulze.

As I said, we have a liberal use of the 5-minute rule here, and I wanted to let all members know how I expect to carry on today. I would go to Mr. Jenkins next, then alternate back and forth right down the Democratic side. But on the Republican side, because of the way they arrived, I would go next to Mr. Frenzel, then to Mr. Vander Jagt, then Mr. Crane.

Now, let me mention that one of the problems that a chairman always has is trying to set an agenda that makes some sense. Yesterday afternoon we got the Dingell telecommunications bill. It is a rather controversial piece of legislation, and it's got a 6-week time fuse tied onto it. We have in our committee a much better telecommunications bill, sponsored by Mr. Matsui, and I think Ms. Kennelly or someone else on our side has a better telecommunications bill—Mr. Gregg.

What do you think of the Dingell bill? What does the administration think of the Dingell bill?

Ambassador YEUTTER. Well, Mr. Chairman, we'd be prepared to be as specific as you would like us to be.

Chairman GIBBONS. Well, would you veto it, or not? That's all I want to know.

Ambassador YEUTTER. At this point I would say to you, Mr. Chairman, whereas Mr. Schulze was raising the question just a minute ago about tying the hands of American business, clearly, the Dingell bill ties the hands of the American President. And although I would not wish to speak for the President on a hypothetical issue, my judgment is that if that bill in its present form were presented to President Reagan, he would almost assuredly veto it.

Chairman GIBBONS. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

Welcome, Mr. Ambassador. Let me follow up on the Canadian treaty that you're now beginning to consider. Do you anticipate problems not only from national laws in Canada, but from the provinces themselves that may conflict with their national law? What I'm concerned about is that in any free trade treaty, that we make sure we go beyond the national prohibition down to the province situations. Do you intend to do that?

Ambassador YEUTTER. Yes, Mr. Jenkins. We will insist on that because, as your question implies, failure to do that would be a half a loaf, or perhaps even less than half a loaf, for the United States. And that would not be conducive to opening borders. So it will be important that the Government of Canada have a mechanism that

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will assure us that the provinces are also on board with what is ultimately negotiated.

Newspaper articles would seem to indicate that there are some struggles going on within Canada on that issue at the moment, and it may or may not be resolved internally. But it will be imperative for the Government of Canada to do that prior to sitting down at the negotiating table with us.

Mr. JENKINS. I ran into that recently in Georgia where a province regulation requires that certain printed material be printed within the province.

Ambassador YEUTTER. Yes.

Mr. JENKINS. Therefore, we could have a free trade agreement with Canada, but if we did not remove that obstacle—or if they did not remove it—then it would be worthless to us because that would be perpetuating a barrier.

Ambassador YEUTTER. That's correct. It is more complicated with our Canadian friends, as you know, because they're a little closer to an "articles of confederation," if you will, than the system that we follow in the United States. So they'll have to work that through, but I know that they're deliberating that issue at the moment and they fully recognize already that they will have to find a mechanism to bind the provinces.

Mr. JENKINS. And if they cannot do that, then of course I would assume that the treaty would not go forward?

Ambassador YEUTTER. Yes, I suppose one would have to evaluate the magnitude of the problem to determine whether one would cease the negotiation entirely. It depends on whether this is an issue that would prevail in all provinces or in only one, and if one and only one, and one issue or more than one issue—so it's difficult to evaluate a hypothetical. But clearly, our position is that all of Canada must be bound by agreements that are reached.

Mr. JENKINS. Has the administration also discussed possible agreements with Malaysia, Thailand, other countries?

Ambassador YEUTTER. There is still a great deal of interest in that subject, Mr. Jenkins. In fact, Deputy USTR Mike Smith is in that part of the world now and he will have some additional meetings with a number of the Asian governments while he is there. There is an interest on the part of the Asian nations as a group in a bilateral arrangement with us, and there is a specific interest on the part of Singapore as an individual nation with us.

My instructions to Ambassador Smith in undertaking this trip might be summarized as follows, that we certainly do not wish to discourage that expression of interest but we have our plate rather full for 1986 in terms of the Canada negotiation and the new GATT round. And I would really rather not cross any of those bridges until next year at the earliest, and we need to just simply reappraise that situation a little later depending on the demands upon our time and people resources and so on.

Mr. JENKINS. Does the administration plan to ask Congress for any tariff-cutting authority in the proposed new round of MTN?

Ambassador YEUTTER. We have not made a definitive decision on that, Mr. Jenkins, but I would anticipate that we would ask for both the extension of the nontariff measure authority and tariff authority, as well. And beyond tariff-cutting authority, compensa-

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tion authority, too, so that we can compensate for any increases in tariffs that might emerge in the legislative process.

Mr. JENKINS. Would your request be for all tariffs, or would it be selective?

Ambassador YEUTTER. We have not yet decided that, but it seems to me—for purposes of maximum flexibility—it would be highly desirable to have the authority apply to all tariffs.

Mr. JENKINS. Mr. Chairman, if I go too long, will you cut me off and come back?

What do you hope to achieve in the multifiber agreement proposal, the negotiations that you're just beginning that must be completed by July?

Ambassador YEUTTER. A result that would be deemed acceptable by your constituents, Mr. Jenkins. [Laughter.]

How's that for an answer this morning?

Chairman GIBBONS. That's pretty bold.

Ambassador YEUTTER. That is a heavy burden.

Mr. JENKINS. My people are not unreasonable. [Laughter.]

Ambassador YEUTTER. I'll not comment further on that at all.

Seriously, Mr. Jenkins, we would hope to achieve a very balanced result in terms of a textile/apparel environment for the world over the next several years. In other words, we recognize, Mr. Jenkins, that this is a very sensitive issue for everyone, exporters and importers. We, the administration, and me, as the U.S. Trade Representative, are in a position where we have to balance those interests in what we believe to be a reasonable and rational way. I am well aware of the concerns of the domestic textile and apparel industry with the import surges that took place in 1983 and 1984, though those surges leveled off in a very substantial way in 1985. I understand the concerns of the domestic industries that they might well occur again. It is reasonable to expect us to respond to that challenge in the new negotiations, and it's reasonable to expect us to conclude those negotiations with a result that will help to preserve a healthy industry in the United States, both the textile industry and the apparel industry. That will be the objective, while at the same time trying to help move the world toward a more free and open system in textiles than we have today. I recognize that is a very delicate and sensitive balancing act, and about all I can say at this early stage, Mr. Jenkins, is that, one, we'll do the very best we can; and, two, we're pleased to consult with you and other public and private sector individuals who are interested in this topic on a continual basis from now until the end of July.

Mr. JENKINS. Let me ask one further question before I yield my time.

Last fall, the administration announced a new "get tough" trade policy. As part of the policy the President expedited, the United States footwear industry 301 case on Japan—which, I might add, was filed in October 1982, 3 years earlier.

What, if anything, did the footwear industry and its workers receive as the outcome of this case after waiting 3 years and spending hundreds of thousands of dollars to try to pursue what they thought—and what had been found—to be a legitimate case?

Ambassador YEUTTER. Insofar as the Japanese negotiation is concerned, Mr. Jenkins, the United States industry received less in the

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way of access to the Japanese market than it would have liked to have received. There is no question about that. As I said earlier in my testimony, my opinion is that the overall result for the United States—which was a combination of additional market access on leather and leather footwear—the compensation and retaliation was a very satisfactory one.

Mr. JENKINS. All right. Let me interrupt just a moment.

Ambassador YEUTTER. Yes.

Mr. JENKINS. That trade is very minimal, is it not?

Ambassador YEUTTER. Which trade?

Mr. JENKINS. With leather and leather products.

Ambassador YEUTTER. Between the United States and Japan? It's relatively small as compared to total United States-Japan trade, yes. That's a subjective determination. I'm sure the United States footwear and leather industry would deem it to be substantial, but compared to United States-Japan trade in total, it is very small.

I'm not sure of the thrust of your question, Mr. Jenkins. Help me a little bit and I'll try to answer it.

Mr. JENKINS. Well, the point that I'm making is, I don't think that the footwear industry itself received a great deal in exchange for its genuine efforts.

Ambassador YEUTTER. That is true. We would like to have obtained greater market access for the footwear industry than we did. My personal judgment once again—and I was very much involved in those negotiations—is that we moved the Japanese on that issue as far as we could.

As you probably know, there are some particular reasons why that is a very sensitive issue within Japan. There's no point in going into those particular matters now, but suffice it to say that added an additional complication to this case that does not prevail in most United States-Japan issues. We believe that the Government of Japan moved as far as we could possibly have moved them on this case; and that, of course, is why much of the settlement involved compensation, meaning benefit to other United States industries exporting to Japan and some retaliation against Japanese leather products coming into the United States rather than the amount of additional access for leather footwear into Japan that we would have liked to have had.

It's difficult for me to embellish beyond that, but as you can tell, that case has some sensitivities that do not prevail in other bilateral disputes between the two nations.

Mr. JENKINS. Mr. Chairman, I'd like to come back later after my colleagues.

Chairman GIBBONS. Let's go to Mr. Downey next.

Mr. DOWNEY. Thank you, Mr. Chairman.

Do you think we'll do a trade bill this year?

Ambassador YEUTTER. Well, I said to some reporters yesterday morning, Mr. Downey, that I thought the probabilities were less than 50/50, but you're in a better position to assess those, perhaps, than I am.

Mr. DOWNEY. Well, I was just curious, seeing Secretary of Labor Brock—who has a passing familiarity with the trade issues—say that our speaker was all wet, that we weren't going to do one. I was just kind of curious to know if there is somebody in the admin-

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istration who maybe is a mole here, and knows more about what we're doing than we do.

Ambassador YEUTTER. Well, if I may, I'll expand on that a bit, and I have not discussed the issue with Secretary Brock.

My own evaluation is based much more on consideration in the Senate side than on the House side because, as you know, that tax reform bill will take up a lot of time on the Senate side and that body is not likely to even get to trade legislation until probably May at the very earliest.

Mr. DOWNEY. Right.

What is your opinion of an oil import fee, either in the context of a tax reform proposal or as a revenue raiser? What impact do you think that would have on trade policy?

Ambassador YEUTTER. It would have a negative impact on trade policy, Mr. Downey. Depending on the construction of the legislation, of course, one would assume that it would likely violate the GATT, so we're probably going to have difficulties with all of our trading partners if we were to impose an import fee. I cannot, at the moment, conceive of a way that we could avoid a GATT violation.

Beyond that, if one just evaluates the issue from an economic viewpoint, ignoring any GATT constraints, I would still come to the conclusion that it would make very little sense from an economic viewpoint, as well.

Mr. DOWNEY. Would you resist it, inside the administration?

Ambassador YEUTTER. Yes. I most certainly would.

Mr. DOWNEY. Can I ask you what you think of CBI? Do you think it's been a success?

Ambassador YEUTTER. I would say, Mr. Downey, it's too early to draw conclusions. As Dick Walters, our U.N. Ambassador, said just yesterday morning after coming back from the Caribbean area, it took more than 3 or 4 years for the Marshall Plan to have an effect after World War II; it would seem appropriate not to make a judgment on the Caribbean Basin Initiative at such an early stage of its life.

Mr. DOWNEY. Can I ask you, with respect to sugar, what impact the farm bill is going to have on the Caribbean countries? As you recall, the farm bill has a provision in there that the sugar program be maintained at no cost to the taxpayer. It seems to me that it's going to further squeeze countries like our good friends, Honduras, the Dominican Republic, and a number of other economies there, to, I think, their detriment. Can you expand on that?

Ambassador YEUTTER. I am very familiar with that program from my agricultural days a decade ago. We were fortunate enough in eliminating the U.S. sugar program during my tenure as Assistant Secretary of Agriculture; regrettably, in my judgment, it has now come back to haunt us once again.

But to be specific in response to your question, Mr. Downey, it will have a tremendously negative impact on many Caribbean nations and many other lesser developed nations throughout the world, as well. The reason for that, of course, as your question implies, is that we will have to reduce the sugar quota in accordance with the law and we'll probably have to continue to reduce it on an

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annual basis in the immediate future, which means the situation will be exacerbated annually from here on and in years to come.

The damage could well be as grave as all the benefits we have heretofore provided in the Caribbean Basin Initiative.

Mr. DOWNEY. I agree with that completely.

Can I make a point about GSP? One of the things in the 1984 trade act, which I supported. There was a provision that would remove GSP if we found that there were copyright, trademark violations. While I am something of an inveterate free trader, I do believe that we need to hold GSP as a stick sometimes over the head of our friends in Taiwan and Korea when they blatantly disregard copyright and trademark laws of the United States. I'm deeply concerned about machine tools and a couple of others in my own district who have been hard hit, frankly, by this. I would urge you to pay careful attention to this. I mean, there are few allies that you have on this committee in my party, and I'm one of them, and I am deeply concerned about this particular issue. In your discussions on that, I would hope you would make that clear to them.

I have one last question, and that concerns the future of trade with ourselves and the Soviet Union, something I hope that we can spend maybe a full hearing on, Mr. Chairman. I think that our relations with the Soviets are bound to improve; I think that's what the administration would like to see happen.

What impact will that have on trade, and what recommendations will you make, if any, to the President to improve our trading relations with the Soviet Union?

Ambassador YEUTTER. My philosophy on that subject, Mr. Downey, would be comparable to yours. I have long felt that increased trade between the United States and the Soviet Union would probably do more to contribute to peace initiatives than anything else the two countries could do. I would very much like to see the Soviet Union become increasingly dependent upon trade with the United States. It seems to me that provides leverage to this country, and we ought to do whatever we can to facilitate the development of increased leverage. Obviously, the Soviet Union would have different opinions from a leverage viewpoint, but the Soviet Union will also be a beneficiary of that trade. As a nation, it must recognize the pros and cons of trade. Although the increased trade may be disadvantageous to the Soviet Union from a standpoint of geopolitical or economic leverage, it's also advantageous in the development of their economy and in the provision of a higher standard of living for their people.

So it seems to me that when all these tradeoffs are sorted out, increased trade will be beneficial to both nations and we ought to foster and encourage that development.

Mr. DOWNEY. One quick followup to that, and I thank you for those comments. Again, I agree with them.

No one wants the United States to export, either ourselves or through our allies, sensitive or revolutionary technological information, equipment, data that would allow the Soviets to expand their military potential.

Do you play any role in trying to determine what technology is appropriate for them to get and what isn't? Because I'm afraid that if we leave that to the Department of Defense, that they will paint

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a very grim picture of what type of trade we can do with the Soviet Union.

Ambassador YEUTTER. Our office, Mr. Downey, has some involvement in that area, but it is peripheral. The primary responsibilities lie with the Defense Department and the Commerce Department.

Mr. DOWNEY. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, Mr. Downey.

Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Ambassador, for coming up here today and sharing with us some of your aspirations.

I have read your statement and found it interesting, and I like your program. Like Mr. Schulze, I'd like to commend you on the energy and enthusiasm that you've brought to a field that had a lot of Members of Congress depressed for a while. I guess if you think you can do it, why, maybe those of us up here will begin to believe that we can do it, too. You are going to be asking us this year for negotiating authority. You are going to be asking for some additional intellectual property rights legislation, for some stricter, tougher trade laws. The administration has, through other agencies, asked for export promotion assistance.

I notice there we seem to have focused on mixed credits, and not on Exim. Can you give us an idea of whether the administration is going to be promoting vigorous Exim activity in the coming year?

Ambassador YEUTTER. Well, I would hope so, Mr. Frenzel; although with Gramm-Rudman in existence these days, that implies constraints throughout the Government and clearly Exim will have to live within whatever the budgetary limits may be. So that's probably a question that would be better asked to Jim Miller and his associates at OMB than to me. It is important.

Mr. FRENZEL. That is true. Really, I'm soliciting your assistance in trying to see that Exim doesn't pay a disproportionate share in the sacrifice allocation that follows Gramm-Rudman.

Ambassador YEUTTER. Well, certainly, Exim has been very helpful in some of our export sales. Without it, we clearly would not have made some of those sales; and at a time when we have almost a $150 billion deficit, all the additional sales that we can obtain from any source are certainly useful.

Mr. FRENZEL. Thank you very much.

I'd like to go on to one of the problems that vexes us in relationship with our northern neighbors. I'm told that the administration is talking with the Canadian Government in exploring ways of looking to expand the North American wood products market. My understanding is that there are a variety of Federal policies that inhibit the growth—or perhaps cause the lack of growth—in the U.S. timber industry. Is the administration going to be working on this and perhaps asking for changes in the law so that U.S. companies can compete more vigorously?

Ambassador YEUTTER. We're giving a lot of attention to that question, Mr. Frenzel, because of the concerns of the U.S. timber industry over this particular bilateral issue and the implications that this longstanding dispute may have to our free trade arrangement negotiations. Beyond that, it's an issue that simply should be dealt with because it's been festering for a substantial period of time and there are great concerns through significant segments of

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the United States on all of these timber issues. They involve, as you know, Mr. Frenzel, not only the northern tier of States bordering on Canada but also southern States who are competing with Canadian timber and finding it difficult to achieve access into the Canadian market on some of their wood products.

That entire issue has been discussed twice in the past 30 to 60 days, once at the conclusion of our quadrilateral meetings in San Diego and a second time just this last week. Ambassador Alan Woods, one of our Deputy USTR's, has the lead in that process and he'll certainly pursue all of those issues in a very aggressive way in the coming weeks.

Mr. FRENZEL. I assume, however, that the interagency process might produce proposals and legislation that will go to other committees. When that happens and your agency believes that it is important to the solution of the problem that vexes this committee, I hope that you would let us know so that we can look for some relief elsewhere as well as in our own legislation.

Ambassador YEUTTER. We'll be pleased to do that, Mr. Frenzel.

Mr. FRENZEL. Mr. Ambassador, I don't know much about it but I'm told that we have a 1979 GATT civil aircraft trade agreement. As you know, our airplane industry is, I guess, our number one exporter. There is the allegation that, despite being a signatory to that agreement, the European Community and companies therein have not—at least, in the opinion of the American industry—been willing to abide by the terms of that agreement.

You meet regularly with your counterparts on the Commission. Can you tell us what's being done or what we might expect on that matter?

Ambassador YEUTTER. Yes. That's a very significant issue, Mr. Frenzel, at least potentially so. It is not broiling at the moment, but it is certainly simmering. We will have discussions at the invitation of our European colleagues on this subject in Geneva in mid-March. We've had correspondence between myself and some of my counterparts in the European countries that are most involved in the Airbus program. This is an issue that is primarily with those individual governments and only secondarily with the European Community. The European Community will probably have a representative sit on the discussions that will take place in Geneva, but the exchange will be essentially between ourselves and the representatives of the countries that are most involved in the Airbus program.

We will have some sharp questions for our European counterparts because we believe there is at least strong circumstantial evidence that Airbus is engaging in some practices that we would deem, at a minimum, violative of the spirit of the GATT aircraft agreement. We wish to pursue a line of questioning on those practices and actions and, depending on the answers that are obtained from our counterparts in Europe, we'll draw some conclusions as to what our next steps, if any, should be.

Mr. FRENZEL. Good. I hope you will tell them at those meetings that the Congress has been inquiring after these things and takes a dim view of noncompliance with signed agreements, and we don't care if it's the EC, the companies, the countries, or who it is; we expect them to live up to their agreements.

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I have a final commodity question, Mr. Chairman, and then I'll pass on.

In regard to candy and chocolate—you will recall it was the year before last when we had a shootout with Korea on that subject that was relatively successful although we did not gain all the access we wanted. I am told that when we sell chocolate and candy in Japan, there is a fairly high rate of duty, 20 to 35 percent; when the Japanese sell their types of candy in this country, it's a 7-percent duty. As you know, I'm not a big fan of direct reciprocity, but in a day of tariffs that have been sharply reduced in many respects, that Japanese tariff stands out like a sore thumb.

Is anything being done about that?

Ambassador YEUTTER. Well, Mr. Frenzel, being a "chocoholic," that issue becomes a high priority with me.

We have raised that question, Mr. Frenzel, repeatedly with the Japanese. Not only has that been done by the USTR, but by other U.S. Government officials as well over a period of a number of years. As you also know, the Japanese have no legal compulsion to make an adjustment because there's nothing that says they must reduce their tariffs; that has to be a voluntary act on their part unless we negotiate a reduction through a bilateral or multilateral process and compensate them for any changes that take place.

At the same time, with approximately a $50 billion trade surplus with the United States, one would hope the Government of Japan would be responsive to some of the issues that we consider to be of high priority, and that happens to be one of them.

Mr. FRENZEL. Sure. We've seen these action programs come and go, a couple a year, at least, and the action programs always involve action on unimportant items with unimportant changes. In my judgment, it's about time they put some action into their action programs on items that the United States can sell, probably fairly easily in Japan—that is, one of the consumer items—it's one of the few left that's subject to a substantial tariff barrier. The Japanese are cunning at creating barriers of other kinds, so perhaps they would be more willing to make some unilateral concession in this regard.

Ambassador YEUTTER. Well, Mr. Frenzel, we will happily report to our Japanese colleagues that there is not only executive branch interest in this subject, but congressional interest as well.

Mr. FRENZEL. Thank you very much.

Mr. Chairman, I yield my time.

Chairman GIBBONS. The next time I go to Japan, I'm going to take my own chocolate. I don't know whether we ought to export any of it to them. I'm a "chocoholic" like you. I think we ought to just keep it all over here. [Laughter.]

Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

Ambassador Yeutter, I'm happy to have you here. I'd just like to clarify one thing with my colleague, Mr. Frenzel, before I begin. I hope he meant that he intended, after his last question, to pass the torch and not to pass on, as he stated. [Laughter.]

Mr. Ambassador, in September the President outlined his commitment to what he called free and fair trade, and he emphasized fair trade, implying that he perceived that competition in interna-

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tional trade is unfair in many cases. Since that time, as you mentioned earlier, the administration has self-initiated four section 301 cases and one antidumping case. I guess two other 301 petitions from private industry are now pending.

Could you tell us whether the administration believes that these cases cover the full extent of foreign unfair trading practices hindering American business that can be addressed by the trade laws?

Ambassador YEUTTER. Not at all, Mr. Pease. I would add parenthetically that there are a number of other private sector 301 cases that are still pending as well, some of them going back a number of years. They are unresolved for a variety of different reasons, but to provide a precise answer, no; the section 301 actions clearly do not cover all of what we would perceive to be the unfair trade practices of the world. I wish they did, but as a practical matter we just can't negotiate that many issues simultaneously. So there are some constraints on reaching them. As a practical matter, not every unfair trade practice merits that kind of concentrated, intensive attention. Some of those practices, Mr. Pease, would simply be more appropriately dealt with in the context of a new GATT round or in the context of broad bilateral negotiations. So although section 301 is an excellent trade policy technique, it's not the answer or the mechanism for all problems.

Mr. PEASE. Do you anticipate any further self-initiation cases of 301 in the next year, say?

Ambassador YEUTTER. We're evaluating a number of the practices of other nations now. There have already been some interagency discussions on several of those. I would expect that those would proceed through the system in the next few weeks, and I would not be at all surprised if another round of section 301 actions were self-initiated in the relatively near future.

Mr. PEASE. Well, I'm glad to hear that, but I'm a little concerned that you say that lack of manpower makes it difficult for you to have a broad attack on all the unfair trade practices that you could identify, and that perhaps some of them need to await the next GATT round which, it seems to me, may be 3 or 4 years off, at least before it's completed. Does the President and the administration intend to wait until the resources are available or until a GATT round is finished to deal with the range of unfair trade practices that you know exist?

Ambassador YEUTTER. No. The other part of my comment, Mr. Pease, was a new GATT round or in bilateral negotiations. The proper place for most of these is in the traditional bilateral negotiating framework which is underway at all times. We're constantly in discussions and negotiations with Mexico, the European Community, Japan, and all our major trading partners on a whole host of disputes that we have with them.

All I was saying was that most of those are dealt with more readily in that environment than they are raising them to the very high profile of a section 301, which is much more labor intensive in that it gets calls for more active consultations and negotiations.

So it would only be the very high priority issues that are of tremendous concern to us in which a section 301 process would be used, but we'll not ignore the others.

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Mr. PEASE. Well, that's encouraging, Mr. Ambassador, and I just hope that you'll pursue these avenues as vigorously as possible. As I talk with my constituents—I just returned from 10 or 12 days in my district—and as I talk to my colleagues in the House, it is clear that Americans are increasingly getting fed up with unfair trade practices on the part of our trading partners. If they don't recognize that and work with us to eliminate those unfair trade practices, there's going to be grave damage caused to the international trading system.

Ambassador YEUTTER. Let me respond to that, Mr. Pease, by saying I hope your constituents and everyone else's constituents will communicate to us the unfair trade practices that they observe or that are affecting them. Sometimes we simply do not hear about them. I'm sure you are encouraging them to make noise and to let us know when they arise.

That's one of the purposes, of course, of the so-called section 303 report which we at USTR must submit to the Congress every fall. The first one was submitted several months ago. We want to continually update that report, which encompasses not only unfair trade practices but other practices that are troublesome, even though they may not be "unfair." And what we're attempting to do now is use that report as a mechanism for followup, either in section 301 cases or bilaterally or in a new GATT round, assigning all of those problems—whatever they may be—to somebody for follow-up. But they've got to make that section 303 list if they're going to get any attention by us or anybody else in the Government.

Mr. PEASE. Well, that's also encouraging. On your assurance that notification of specific unfair trade practices will be followed up, I will certainly call on you and bring to your attention those that I uncover in my district. I do it on a regular basis.

I'm going to be establishing—I am in the process of establishing—a network within my own district to identify those cases. My view is that within the context of a responsible trading system, we have every right as Americans—and further, an obligation as Americans—to make sure that we do require a level playing field, fair trade on the part of our partners, and I'm glad to hear that you agree on that.

Mr. Ambassador, I want to ask you a specific question and then a general question in relation to steel. Could you give us some sense as to the disposition of the section 301 petition filed by the specialty steel industry against stainless and heat-resisting steel pipe and tube, and stainless steel wire from Sweden?

Ambassador YEUTTER. Yes. Mr. Schulze asked me that a little bit earlier, but the answer is that that petition is being evaluated by our people within USTR and in the interagency process, and recommendations will come to my desk shortly. The deadline date, I believe, is mid-March, so presumably there will be a recommendation on my desk in the next couple of weeks and I'll dispose of the issue at that time.

Mr. PEASE. More generally, let me ask you how the President's voluntary restraint program is operating in the steel area; what percentage of the market is currently held by imported steel; what your prediction is for the trend of that percentage over the next 6

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to 9 months; and what you are doing or intend to do to bring it down to the 18.5 percent level which was agreed to originally?

Ambassador YEUTTER. OK. My opinion, Mr. Pease, is that that program is now very well implemented. I don't take any personal credit for that because most of those agreements were negotiated before I became USTR; the only major one that has been concluded during my tenure is the one with the European Community, which obviously is an important one.

Our feeling, Mr. Pease, is that we now have agreements in place that will effectively respond to the concerns which precipitated this program in the first place; that is, the penetration of the U.S. steel market by products that are either subsidized or dumped into this economy. In other words, the intent of the President's program has been to offset unfairly traded steel coming in from other nations.

Our judgment is that the consortium of agreements that's now in place will reach that objective. If it does not, then we'll add additional agreements or broaden agreements as the need demands. But the intent is then to make sure we've covered nations that are engaging in what we deem to be unfair trade practices in steel.

Now, the second part of the question is how that will translate in numbers. At the moment, those numbers are still beyond 20-percent penetration into the U.S. market. My opinion is that that percentage will decline during 1986 because some of those agreements are just coming on board, and some of them involve shipments—overshipments last year—that will have to be compensated for in 1986 by undershipments this year, and there are a lot of administrative adjustments that will take place as each of these agreements is implemented in 1986.

But to give a generalized answer rather than a specific one, my opinion is that the import penetration numbers will gradually decline as we move through 1986. I believe we've done what deserves to be done on steel; that is, in my opinion, we've taken the unfairly traded steel out of the picture. Whether that will bring us down to the 18.5-percent target or not, I'm not sure. It may or may not. I believe it will bring us quite close to that figure, but if we fail to achieve 18.5 percent, it seems to me that is not subject to criticism as long as we have cut off the unfairly traded steel moving into the U.S. market. In other words, I don't want to go protectionist and stop fairly traded steel from coming into the United States.

Mr. PEASE. Mr. Ambassador, that troubles me somewhat. The purpose of this program was to give the U.S. steel industry a 5-year period of breathing room in which to modernize and make itself world competitive. Whether it's fairly or unfairly traded steel that's coming in I'm not sure has that much bearing.

My understanding is that foreign steel still is consuming about 25 percent of the U.S. market a year and a half into this agreement, this 5-year period. Now, at the end of 1986, if the percentage is still 23 to 22 percent, in that area, would you agree that it would be fair to extend the 5-year agreement another 2 years? Because the industry is not getting full advantage of the original agreement.

Ambassador YEUTTER. Well, my judgment, Mr. Pease, is that it would be very difficult to achieve support for an extension of that agreement beyond its present termination date. That's an issue

that has been discussed within the administration on innumerable occasions over the past several years, most of them long before I came. It has also been discussed with the domestic steel industry over and over again. I believe that the support for extending that agreement beyond its 1989 termination would be very slim indeed.

Mr. PEASE. Well, Mr. Ambassador, the object of that agreement—well, in the first place, the President sought the voluntary restraints to head off legislation in the Congress. The object of it was to get steel prices firmed up so U.S. steel companies could make a profit, plough those profits back into modernization, which as you recall is required in the law that Congress passed.

Because the percentage of steel coming into the U.S. market has been 25 percent, a long way from 18.5 percent, prices have not firmed up very much. American steel companies are still, a lot of them, in a money-losing situation, and they've not been able to modernize as a result. It seems to me that the whole basis and thesis of the program is undermined if you are not able to bring those percentages down below 20 percent by the end of this year.

Now, I can well imagine that there's not much enthusiasm in the administration for extending the program, but that doesn't extend to Congress. Would you not feel that we would be justified in Congress to extend the program so that it gives the steel companies the amount of time which they originally were told that they would have to achieve modernization?

Ambassador YEUTTER. Well, in my opinion, Mr. Pease, we should both reappraise the situation on a continuing basis as the year unfolds. If our estimate is correct and the numbers do come down, then I would see no reason for a change in the program. If, on the other hand, there is 25-percent import penetration at the end of this year, then it seems to me that's cause for reappraisal, both within the executive branch and the legislative branch and you'll have to, of course, exercise your own judgment as to what the congressional response to that should be.

I would additionally say that I am very sympathetic with the steel industry. My comments do not reflect any lack of desire whatsoever to help that industry in the adjustment process. The domestic industry has been excellent to work with during this entire program, very supportive, and my opinion is that they're doing the right things from a management standpoint today. They really are making the kinds of investments that are essential to make themselves more competitive, and that entire scenario is moving in the right direction.

I appreciate their concerns over the level of import penetration, but I'm not prepared at this time to conclude that the President's program will not give them adequate breathing space.

Mr. PEASE. One final quick question if I may, Mr. Chairman.

Mr. Ambassador, so that we might have something to talk about next year when you return for your annual visit with us, could I get you to predict for the record what you think the trade imbalance will be this year with Japan, and what our overall trade imbalance will be?

Ambassador YEUTTER. Those are dangerous prognostications, Mr. Pease, but let me take a try at them in any case. And I'll analyze them just slightly.

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Clearly, on the global scene, we will benefit from the decline in oil prices. That's certainly going to be helpful. It's difficult to make an end of year estimate because those prices are still trending downward, and it's very difficult to know at this point how much farther they're going to go. But with what has been transpiring in recent weeks, that could change the picture to a significant degree.

Until we began to have a decline in oil prices, Mr. Pease, I would have said that the deficit for 1986 would probably be in the same ball park as 1985, even though the fundamentals are improving very significantly. And the reason for that is what the economists call the J-curve effect, which means that things get worse before they get better even though the fundamentals are improving.

So I believe we're probably in a J-curve effect at the moment, which means the numbers could actually worsen during the first half of 1986 even though the dollar has been falling and the basic fundamentals are improving.

By the second half of this year, we should begin to reap some benefits from the improvement of the fundamentals, and the monthly totals are going to improve. But when one annualizes all that for calendar year 1986, one has to conclude that the poor first half combined with an improved second half is likely to leave the overall numbers not much better than they were in 1985.

Oil will help that some, so I suppose today I would predict that we might trim those numbers by $10 billion or so for 1986, and move into 1987 in a much better situation than we are today.

With respect to Japan, I am optimistic that we'll have some improvement in 1986, Mr. Pease, but not a lot. Even though the dollar has fallen very substantially vis-a-vis the yen, more than against most other currencies, one still has a lag time before that is reflected in the order books. It's happening to some extent now on automobiles, for example, and other products, but not to a major degree. There are obviously very high profit margins involved in a lot of Japanese export sales into the United States over the past years, and the Japanese companies are now simply absorbing the decline in the value of the dollar and are not adjusting sales very much.

This is just now beginning to pinch with Japan, but interestingly—and disturbingly—that's being offset to some degree by a new Japanese loan program for small and medium exporters. In other words, the Government of Japan has now concluded that because some of their exporters are beginning to hurt a little bit, it's time to help them; and what they're going to do through this loan program is offset some of the benefits of the decline in the value of the dollar.

That doesn't make me terribly optimistic about the numbers, Mr. Pease, and I would say the United States-Japan deficit will be slightly lower in 1986, perhaps, than in 1985, but not very much.

Mr. PEASE. Thank you very much, Mr. Ambassador.

I would just like to say in conclusion that it's a pleasure to have someone come before this committee who is as direct with the committee as you have been.

Chairman GIBBONS. Mr. Ambassador, you're about to participate in something that's unique. When the 1988 Presidential election

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rolls around, we may have two giants of the Ways and Means Committee battling against each other——

Ambassador YEUTTER. Only two?

Chairman GIBBONS. Well, that's all that I know of right now. I'm not running.

But we've got George Bush on one side running very hard, and we've got another very patient, very fine gentleman sitting here, a member of our subcommittee who has been sitting here for hours, waiting for his turn. It would be a unique part of American history if we had two alumni of the Ways and Means Committee in there battling.

And with that, I give you Richard Gephardt.

Mr. GEPHARDT. Mr. Chairman, I get concerned when you call me an alumni already. [Laughter.]

Chairman GIBBONS. Well, I figure you can't be both President and a member of the committee.

Mr. GEPHARDT. Well, I hope that if a decision is made—it has not been made that I would be a candidate for President—I would sure hope that I would still be a member of the committee.

Chairman GIBBONS. Well, we hope you are going to be here, too.

Mr. GEPHARDT. Maybe you know something I don't know.

Chairman GIBBONS. Well, I'm thinking.

Mr. GEPHARDT. Thank you, Mr. Chairman.

Thank you, Mr. Ambassador, for being here today. I'd like to first concentrate on something that you talked about near the end of your testimony, about the $150 billion trade deficit which, I think, is the one fact that concerns all of us very much.

Recently the President's Council of Economic Advisers gave the opinion that the trade deficit of $150 billion had little or no impact on jobs, on employment in America. I don't share that view. I wonder what your view is in light of the statement that they've made. Do you agree with their view? Do you disagree? And if so, in what respects?

Ambassador YEUTTER. Well, generalities are always dangerous, Mr. Gephardt, as you know. Without trying to analyze all of the implications of that statement, I would say in defense of the Council of Economic Advisers that they are articulating the fact that employment levels in the United States are at all-time highs today; the unemployment level, as you know, is lower than it's been for many years, and even manufacturing employment is now on the upgrade. So the overall employment situation in this country does look very attractive, indeed, notwithstanding a $150 billion trade deficit.

But the additional question that one must ask—and this would be implicit in your query—is, how much higher would employment have been had we not had a $150 billion trade deficit? And I would certainly believe that, in the absence of trade deficit, we would have even more people at work in the United States today than we do, and unemployment rates would be still lower.

But there are tradeoffs in this, as you know, because one of the reasons that we have that trade deficit is because of some of the macroeconomic policies that did provide domestic economic growth. So to make the analysis a little bit more complicated one has to say, well, had we changed those macroeconomic policies so that we

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would have had a much smaller trade deficit or a nonexistent trade deficit, would we have achieved the domestic economic growth and the job creation that took place there that we've had in recent years? And I suppose the economists could debate for hours on that subject.

But my personal feeling would be that the country as a whole would be a lot better off without that $150 billion trade deficit, and that employment levels would probably be somewhat higher if that deficit were lower.

Mr. GEPHARDT. Let me also comment that I have some suspicion about the veracity of the unemployment figures in that, a few years back at the start of the Reagan administration, the ground rules were changed on how we measure unemployment. And my suspicion is that there probably is between 2 and 3 percent higher unemployment today than there would have been under the old ground rules because of their failure to take into account the discouraged worker who can't find a job.

I would also say to you that even though we have made progress on unemployment, even taking that into account, that we do have some pockets of unemployment, especially in the manufacturing sector, that I think are severely impacted by the trade deficit. And we need to be clearly focused on exactly what is happening in two different sectors.

I won't have time to ask a question about training adjustment assistance, although that may have been covered this morning. But think that when we've got a $150 billion trade deficit—and if we all agree, as I think we essentially do in this country that we don't want protectionism—then it seems to me that a central part of our trade policy has to be how we deal with dispiaced workers or workers who are in trouble because of the trade deficit. And I know that Don Pease, Chairman Gibbons, other members of this subcommittee on both sides of the aisle have been very aggressive about the Trade Adjustment Program. I know we've got Gramm-Rudman; I know we're in an era of budget limits. But to not be offering to the workers of this country a reasonable way to be retrained, especially now, I think is probably the greatest weakness in our trade policy. I don't notice much about it in your statement. I hope that as we look at what we want our trade policy to be, that we will be putting that important element into our trade policy. There is no way, in my view—absolutely no way—to avoid a breakdown in our trade policy if we're not offering our workers a reasonable way to be retrained.

Ambassador YEUTTER. Mr. Gephardt, if I may, I'd like to just add a philosophical comment there.

Without getting into the question of adjustment assistance, I would say—and this is somewhat simplistic, of course—that the best answer to assistance is not to have to adjust. And clearly, one of the problems of having a $150 billion trade deficit and a very substantial deficit that exists over a long period of time, is that the adjustment becomes permanent; and institutions and organizations and business firms begin to depend upon the status quo. What I'm getting at is the concern now among our foreign trading partners over any alteration in the status quo. They've become very comfortable with this very large deficit; and as you have observed the

dollar falling in very recent weeks to the point where it is now pinching, we're beginning to hear more and more criticism from our trading partners about the disadvantages of having it go any lower. With respect to the Japanese loan program for exporters that I just mentioned—what has happened, of course, is that those who have a very large trade surplus with us are very comfortable with that surplus and would like to preserve it at this level. In other words, they'd like to have the dollar level off where it is today and have us indefinitely run a $150 billion trade deficit and very large trade deficits with a lot of other countries and go through that adjustment, which is a very painful process.

It would be much better if we could avoid having swings of this magnitude in the size of our deficit, and avoid being out of equilibrium for such a long period of time. It seems to me one of the painful parts of this entire process that we're going through in the United States today is that it's a 5-year exercise that has brought about all this necessary adjustment.

Mr. GEPHARDT. Let me go to my last question. It's really the central thing that I want to talk about, and that is the fineline between protectionism and toughness in getting results in the trade negotiations that you're engaging in.

I think there is remarkable agreement in our country between philosophies and between parties about where we want to try to wind up with regard to the kind of trading system we'd like to see in the world. I think where we get into some hot debates is on the means to achieving that goal. And my criticism of the administration's—both trade policy, but more importantly, the carrying out of that policy—has been the unwillingness to use the access to our market as the leverage to try to get behavior changed.

Now, I understand that change is hard to achieve, and all of us become comfortable with the status quo, as you just said. And I know that our trading partners don't want to change, for a variety of reasons. They have their own agendas, they have their own domestic political situations, and I understand all of that. But it seems to me that if the trading system is to work, we, as Americans, have to be not just leaders; we have to be referees, but we also have to be tough negotiators in this system. And I'm not convinced that we're using, to the extent we can, the leverage of the access to our market.

In the multifiber negotiations you now have the existence of this bill sitting out there, with the vote coming later in the year. It seems to me that provides an incredible opportunity to use that in the negotiations. In the area of telecommunications you have been trying to get progress. I think you've gotten some; I don't think you've gotten enough. Again, we have the Matsui bill; we have other pieces of legislation out there. You're going into the GATT exercise, and we have a series of things that are out there.

My question to you is, do you think that you can use these measures and the access to our market as leverage? Do you think you can get agreements? I notice in your testimony, on pages 11 and 12 at the bottom, you talk about the practice and behavior in Japan on relying on increases in export accounts to stimulate growth. And you talk about your wanting the Japanese to reduce their reliance on trade surpluses for economic growth by increased domestic

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economic opportunities. I think we all agree with that. The question is: Can we get behavior changed? Can we get practices changed? And I realize that it's often hard to negotiate when we do have a huge Federal budget deficit that they feel has been part of our problem, and I don't want to get into that debate with you.

But I'd like you to respond to my basic point: Can we use access to our market? Are we using it sufficiently enough? And can we get actual outcomes to change? Because I'm fearful that if we can't in this situation, with a $150 billion trade deficit, that we're never going to get it done.

Ambassador YEUTTER. Mr. Gephardt, I won't speak for the rest of the Government, only for USTR, but I can assure you that I use every bit of leverage that we have from every source. And in fact, much of what you've just said, I have stated in a whole host of speeches, including speeches to foreign counterparts over the last 6 to 8 months. So I'm a very great believer in the value of leverage. Whether that leverage comes from within the executive branch of Government or the legislative branch of Government makes no difference to me. The more I have available, the better.

I assure you, Mr. Gephardt, every bit of leverage that you provide in the Ways and Means Committee or in the Congress generally will be used.

Mr. GEPHARDT. Just in closing, what I think concerns you and concerns me is that most other countries don't use those measures as leverage; they use the measures. They deny access to their market in a great many ways that we do not. I understand we're the leader of the free world; I understand that we've got to show leadership by example. But at some point, we've got to have some change in behavior on other countries' parts if we're to be politically in a position to be able to continue that leadership.

I also think their willingness to show change is going to be important in making the trading system what all of us in the Free world want it to be. So I think what you're setting out to do in the next few months is extremely important, probably the most important economic issue out in front of us. And I wish you well. We are behind you in what you are trying to do, and I hope you succeed. And if you need people to come to testify to other countries' representatives about the deepness of feeling in this country about this issue and about the way other countries conduct themselves, there are a lot of people here that would be willing to do that.

Ambassador YEUTTER. I appreciate that, Mr. Gephardt, and I would simply say that behavioral change is necessary in some of our major trading partners. They believe that some of that is necessary on our part, too, as you imply, but certainly that's a major question in our relationships with Japan. Jim Baker, George Schultz, and I have been pointing out to our Japanese colleagues over and over again that it is imperative that Japan exercise leadership in the area of international trade. It is a role to which Japan is not accustomed, and it is a role to which Japan as a nation is not yet comfortable; but in my judgment, it is a role that is imperative for that nation if we're to have the kind of evolution of international trade policy environment that you contemplate.

Mr. GEPHARDT. I agree with that. I also urge you to say, as I'm sure you do, that it isn't just Japan; clearly, they must be a leader

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because of the magnitude of their economy, but there are other countries as well. As you will remember, I had the amendments on the generalized system of preferences a year or so back. That's another area where you have leverage. We almost won that amendment on the House floor, and our trade imbalance with, for instance, Taiwan is $10 billion this year.

So I think you've got a lot to talk about. I'm just hoping you will be able to get those changes made.

Thank you.

Chairman GIBBONS. Thank you, Mr. Gephardt.

Mr. Vander Jagt.

Mr. VANDER JAGT. Thank you, Mr. Chairman.

Mr. Ambassador, I think it has been an impressive performance, and I share my colleagues' views on the way you have been forthright, knowledgeable, and informed. I especially appreciate the spirit of cooperation with this subcommittee and with the Congress, that you have reiterated.

I would also like to commend you for the vigorous and comprehensive program on behalf of fair trade for U.S. business and industry. You've pointed out the 301 cases; I know from firsthand experience with a 201-petition on apple juice, the energy with which you and your office have pursued import relief for American industry.

So I would just like to commend you on your appearance. Thank you for being here, and say that we look forward to working with you on behalf of free and fair trade.

Ambassador YEUTTER. Thank you, Mr. Vander Jagt.

I'd just like to add one final comment with respect to Mr. Gephardt's earlier statement, and that was with respect to GSP. The congressional changes in GSP were very, very helpful. As you know, we're going through that review process on GSP right now with a January-deadline date on that. But what you've added in the way of leverage—by you, I mean the Congress—have added in in the way of leverage in the GSP review is very useful.

Mr. VANDER JAGT. Thank you.

Thank you, Mr. Chairman.

Mr. FRENZEL. Would the gentleman yield?

Mr. VANDER JAGT. I'd be happy to yield.

Mr. FRENZEL. I'd like to simply take note that the gentleman who was trying to help me shuffle off this mortal coil was the guy who did all the work on GSP and provided those incentives.

Chairman GIBBONS. Fine. Thank you.

Mr. Matsui.

I might say Mr. Matsui has a very important telecommunications bill that we expect to be considering soon. I don't know whether he wants to talk about that or not, but we welcome him here.

Mr. MATSUI. Thank you, Mr. Chairman.

Mr. Ambassador, I'd like to, if I may, clarify a response you gave to the chairman this morning regarding what I believe was H.R. 3131, the Worth-Florio bill. It was referred to as the Dingell legislation. That is the legislation that you indicated you would recommend a veto on, is that correct?

Ambassador YEUTTER. Yes, sir.

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Mr. MATSUI. Would you tell us the reasons that you would suggest a veto? One, obviously, because through the MOSS talks you consider the telecommunications issue at least resolved to a large degree, but second, do you find some technical or other issues with respect to H.R. 3131 to be of such concern that you would recommend a veto?

Ambassador YEUTTER. Yes; there are several elements of that bill, Mr. Matsui, that we would find objectionable, and I'm not sure that I can recall all of them at the moment. I'd be glad to give you a more thorough analysis later if you'd like me to do so.

But just operating from memory, as I recall the aspects of that legislation that distressed me the most, they would be the removal of Presidential discretion in dealing with the situation that prevails. In other words, the mandatory retaliation that is required, the definitive timetables that are required—that's just not the way to conduct international negotiations, and it's not the way to bring them to a definitive conclusion. It's definitive, all right, but the result just may not make any sense.

We really need to build in more discretion in the legislation of that kind than is present in the Dingell bill. And in the absence of the discretion so that we can come out with a sensible result, that legislation will inevitably be vetoed. No President wants to have his hands tied on telecommunications negotiations or any other negotiations; and as a USTR, I don't want to have my hands tied, either. I can appreciate the frustrations in the Congress of not being able to get definitive, decisive, expeditious, negotiating results, but it seems to me that one cannot legislate those kinds of results. There simply has to be wiggle room and flexibility in a negotiator's hands in dealing with those issues, and the legislation has to be framed in such a way as to provide that.

Those would be my principal concerns. There are some others, including the basic issue of whether we should have sectoral reciprocity and how definitive that should be; that, is how hand tying the definition of reciprocity would be.

So there are other questions of that nature, trade policy questions of that nature, that are also somewhat troublesome and need to be worked out in a sensible way. But I would be most disturbed by the lack of Presidential discretion that applies to the Dingell bill.

Mr. MATSUI. In terms of the MOSS discussions that occurred in late December and early January in terms of telecommunications, you made considerable progress and I want to commend you for the results that you did, in fact, achieve. There are, however, a few remaining issues, one of which I consider to be extremely important, and that is the commercial practices and procurement policies that might be conducted both by the Government, and NTT, and also by the Japanese business community and electronics industries.

I always go back to what happened in tobacco a few years ago. I recall that Mr. Nakasone—when he was first elected Prime Minister—came to the United States and said that they were opening their markets to American cigarettes. I recall those from tobacco-growing States becoming very happy about that, obviously, and then finding out that there were major problems with the distribu-

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tion system in Japan. And so although they opened up one barrier, other barriers were erected.

And these elements that you were successful in achieving in December and January were very helpful, but the problem that I see will be a continuing practice of not allowing U.S. telecommunications goods in the country. And as a result of that, it seems to me that you will need further possible sanctions available to you; and as a result of that, we—on the Ways and Means Committee—many of us hope to begin marking up a bill that might be more acceptable to you. Mr. Gregg, and myself, and others are currently working on one now. I do agree with your sectoral analysis; I think we probably should come up with an omnibus bill. That way we could even bring more strength and support for the legislation.

I would hope that you will work with us on this telecommunications legislation. Our bill would not be directed merely at Japan—France, and some of the Scandinavian countries, Italy—also have closed markets and we should pursue their barriers, as well as Japan's.

Ambassador YEUTTER. I'd be more than happy to work with you on it, Mr. Matsui. It's a very important area and it is an area in which we have a lot of problems. We have some major issues with our neighbors to the north in Canada. As you know, we've already had some discussions with the European Community over some of their practices. There are a number of nations in which telecommunications issues are in the forefront, including Japan; even though, as you say, we had an excellent negotiating result. The proof of the pudding is in the eating, and we're a long way from that stage yet.

Mr. MATSUI. I really agree with that.

I would just like to make one other observation, if I may. You mentioned the fact that in Japan, although they have made attempts to open up their markets, although the value of the yen has increased significantly since September when Mr. Baker changed policies in terms of intervention, the Japanese Government still seems to find ways to overcome some of these level playing field elements; for example, the loans you raised. Mr. Foley led a delegation in January to Japan. I was a member of that delegation; we didn't have press conferences after every meeting, as perhaps some Members from the other body did, so we were more discreet about our trip.

At the same time, I was somewhat disturbed with some of the things that were occurring there. One, it appears to me that there is not going to be any major change in the Japanese Government's fiscal policies. They are not going to encourage consumption, which seems to be a major problem. Second, we met with the Minister of MITI, Mr. Watanabe, and although I understand he had a good meeting with you and Mr. Schultz, our meeting wasn't particularly productive because in that meeting he indicated that there may be an attempt to weaken the value of the yen because some small businesses in Japan were all of a sudden experiencing problems with the drop in the value of the dollar.

And so I wonder whether there really will be a commitment by that country to, in fact, encourage consumption through fiscal policies and actually work with us in reducing the value of the dollar.

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And, third, obviously, overcoming some of these problems such as subsidizing their exports through loans and others.

What is your sense of this?

Ambassador YEUTTER. I agree with your overall assessment of that situation, Mr. Matsui, which essentially says the jury is still out.

The Japanese Government knows very well what our views are on all of those subjects. They have been articulated in comprehensive fashion to the key leaders of the Japanese Government, including Prime Minister Nakasone himself, and this has been done on innumerable occasions over the last several months. So there should be no doubt in the minds of the leaders of the Government of Japan precisely what we would like to see them do to reduce the size of their trade surplus with the United States. And part of that, of course, includes stimulating their domestic economy and generating additional consumption, and less reliance on savings, and market opening measures, and a whole lot of other things. Whether they will do that or not is another matter because, as you say, it's very troublesome to see the slipping back that occurs on matters such as the loan program.

I would simply say that unless the Government of Japan makes significant changes in its trade behavior, we are heading toward a very substantial confrontation with them on a lot of trade issues over the next couple of years; and the confrontation will be obviously not only with the executive branch of Government, people like myself, but also with this Congress. I believe the Japanese Government understands that; I certainly hope they understand that because it's a very serious issue, indeed.

We will probably get a better clue to that, Mr. Matsui, over the next 6 weeks; first, as the committee that's making recommendations to Prime Minister Nakasone on structural adjustment kinds of issues, makes its report sometime during the month of March; and when Mr. Nakasone visits the United States shortly thereafter, in the month of April.

Mr. MATSUI. In the meantime, we do have the need to move legislation in telecommunications because the Speaker did give the chairman of the committee until April 15 in which to move the bill or else the Florio-Worth bill, which obviously you don't like, will hit the floor of the House for a vote. So as a result of that, I again appreciate the cooperative effort that I will have with your office in terms of Mr. Gregg's my legislation. So I look forward to working with you.

Ambassador YEUTTER. Certainly. Thank you, Mr. Matsui.

Mr. JENKINS [presiding]. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman, and I, too, want to congratulate the Ambassador on his outstanding presentation and his direct and forthright responses.

I have a few questions, some general, but let me start with the parochial ones dealing with constituent interests.

You've made significant progress in the MOSS talks in telecommunications and electronics, but there is one troublesome area still with semiconductors. Last October you indicated that the section 301 case that was filed by the semiconductor industry association against Japan was being expedited, put on a fast track. The normal

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timeframe is a year, and that will expire in about another 4 months. Can you give me any update as to whether, in fact, that might be consummated before April or sometime this May?

Ambassador YEUTTER. I can give you an optimistic update on that, Mr. Crane, at least optimistic from the standpoint of the United States.

We have put a lot of work into that case in recent weeks, including meetings late into the night last night. We have a Japanese technical team that is in town for discussions today, and we will be honing a tentative proposal in the next few days that we would expect to provide to the Government of Japan the first week in March. Ambassador Mike Smith will make that presentation in Tokyo in early March; he's already in the Far East, and we hope that proposal will be greeted enthusiastically by the Government of Japan. They'll obviously not be comfortable with all of it, but I truly believe, Mr. Crane, we're getting closer and closer to a solution of that issue, which we consider to be a very critical one, indeed.

Mr. CRANE. Well, especially with one of my big constituents out there in Schaumburg.

Ambassador YEUTTER. Yes.

Mr. CRANE. I think one of the problems, frankly, especially in a field like semiconductors, is the necessity of turnover in a short timeframe because of having to generate revenues for a new generation of product. And to try to address that, we introduced last year that Republican trade bill which tried to cut that investigative timeframe down to 6 months. Is that realistic?

Ambassador YEUTTER. I'd like to cut it down a whole lot more than that, Mr. Crane; and, in fact, that's a portion of our proposal. I'd like to cut it back to about 6 days instead of 6 months, and I'm not sure we're going to get that far but we're working on ways to expedite that entire process in a very dramatic way.

Just to give you a little more feel for the situation, it seems to me that this is an industry in which we're dealing with very sophisticated companies in the entire industry worldwide, so there's no reason why those companies cannot provide computerized cost data that could be analyzed very quickly by the Government of Japan and the Government of the United States. If so, it seems to me that it ought to be feasible to design an expedited procedure for handling trade complaints of semiconductors; and what we've been trying to do over the last few weeks is develop that kind of an expedited system that would respond to an industry that creates generations in very short timeframes.

Mr. CRANE. Do you have at the present time, in your estimation, adequate staff to expedite this whole process? Or does it require, in your estimation, taking on additional people?

Ambassador YEUTTER. We're adequate, in my judgment. We've been getting a lot of help from the Department of Commerce on this. They've been intimately involved in this design, and we're getting a lot of help from industry people, too, including your constituents.

Mr. CRANE. One other concern in this same context, there was an interesting article on the semiconductor industry in yesterday's Wall Street Journal. The author of the article pointed out that our

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cost of capital in the United States is three times what it is in Japan.

Now, that's under existing tax law. The unfortunate thing is, we have a tax bill no longer under consideration by this body, that has been sent over to the other body, that according to a Wharton study and Chase Econometrics study, very drastically further increases the cost of capital domestically. And it strikes me that we're moving, in tax policy at least, in a very bad direction with regard to improving our trade situation. Would you concur in that?

Ambassador YEUTTER. Yes, I would, Mr. Crane. I read that same article. The gentleman, of course, draws the conclusion that tax policy can have an adverse effect on our international competitiveness, and the further conclusion that it is doing precisely that; and that the new tax policies might exacerbate the situation.

All I would say beyond that is that I hope by the time tax reform becomes law, we will have seen some changes in that respect.

Mr. CRANE. I was in Japan in 1981 with the American Productivity Center, and we had the opportunity to visit a lot of businesses and talk to Government officials. One of the comments that was made to us by Japanese manufacturers was that our antitrust laws are sorely outdated and irrelevant with regard to current world markets. And they expressed amazement that we had not done anything about this. One thing they do is pool R&D efforts over there; and when we asked them, "Well, who owns the patent?" they looked at us, like, "Who cares?" They get very proprietary in their product line.

But that's someplace where the administration is liberalizing, at least, our policy in antitrust legislation. Do you think there is further significant action, to try and upgrade our 19th century antitrust mentality to deal with the world markets to improve competitiveness?

Ambassador YEUTTER. Absolutely, Mr. Crane. I made the point earlier in this hearing that we're in a global marketplace now, not a domestic marketplace, and it just makes no sense to place our firms at a regulatory disadvantage vis-a-vis their competitors. That's a sure guarantee of a losing result.

So we have to be more perspicacious than that, and I would hope we can make some changes in antitrust law, both in terms of the content of the law and the administration thereof, that would affect that in a positive direction.

As you know, Secretary of Commerce Baldrige has been raising this question over and over again in his 5-year tenure here; and yesterday, some proposed changes were submitted by the administration with Secretary Baldrige joining Attorney General Meese in that regard. Whether those go far enough, Mr. Crane, it seems to me is a legitimate question. My hypothesis would be that we could do still more.

Mr. CRANE. One of the other points made in that article that I referred to in the Wall Street Journal dealt with the absence of taxation of capital gains in Japan. They also informed us they don't tax dividends and, for all practical purposes, don't tax interest. And they indicated to us at the time that these incentives for savings and investment they learned from us. They were surprised why our Tax Code punishes you for investment and savings with

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double, triple, quadruple taxation of dollars. It struck me that what they suggested made a great deal of sense in that it was certainly a major factor in the amount of personal income that goes into savings over there. I've seen figures as high as 25 percent, and I think it got down to maybe 17 percent. But in your testimony you alluded to this fact, that we're only producing about $30 billion in personal savings that can be applied to debt service, and we're having to depend for the other $110 billion on foreign investment in our debt. And I would hope that we might jointly, and in whatever contributions you can make to the other body when they review this tax bill, urge them to take a long, hard look at that.

There's one final question I'd like to ask, and that's on the upcoming GATT rounds. Could you give us any assessment as to what you anticipate might be accomplished?

Ambassador YEUTTER. Well, a whole lot, Mr. Crane, would be the simple answer to that. We could spend a lot of time on that, but suffice it to say we really need to improve the GATT as an institution to generate confidence in it as the international trading body, if you will, that provides surveillance over the conduct of international trade. The GATT's reputation is, indeed, tarnished today, and it simply needs an uplift in a whole variety of ways.

So we've got to deal with that issue in a very broad way.

Then, in addition, we've got to broaden the jurisdiction of the GATT. It's not covering nearly enough of the trade of the world. Congressman Schulze brought that point out earlier, where so much of international trade does not even come under the aegis of the GATT, and it needs to get beyond trade into areas like investment and services which have heretofore been left for no one to provide any jurisdiction over. So the aegis of the GATT has to be expanded. It needs to be a stronger, more decisive, and effective organization internationally. It needs to be brought to the level of its peers in the IMF and the World Bank, and hopefully at maybe even a little higher level. So international trade needs to have greater prominence internationally, and that has to be done through this whole exercise.

And then, in addition, of course, we've got to move to market opening measures for all of us. We think that's in the best interests of the United States because we think we can compete in a free and open trading system, and we've got to deal with a whole host of issues that would lead us further down that path. And that's clearly a 3- to 5-year negotiating process. But I frankly believe that we can get there, and we can have the world be a whole lot better place in which to trade if we do it.

Putting it the other way around, Mr. Crane, if we don't do it, if we don't have another GATT round, it seems to me that we're inevitably heading to a real mess in international trade.

Mr. CRANE. Well, Mr. Ambassador, clearly you have your work cut out for you. But I again want to congratulate you and I commend the administration for its wisdom in selecting you for this particularly important role. Thank you for coming today.

Ambassador YEUTTER. Thank you.

Mr. JENKINS. Ms. Kennelly.

Ms. KENNELLY. Thank you, Mr. Chairman.

Mr. Ambassador, we all have those things that are near and dear to our hearts, and next Thursday, February 28, will be the 2-year anniversary of the day Secretary Baldrige sent his recommendations on machine tools to the White House.

Can you give us an update on the possibility of any decision in the near future?

Ambassador YEUTTER. Gee, I'm surprised that you asked, Ms. Kennelly.

Ms. KENNELLY. I keep asking you, Mr. Ambassador, because people at home keep asking me.

Ambassador YEUTTER. I knew that someone would be asking me about that issue this morning, and so I talked to the National Security Council staff a few days ago and said, "For Heaven's sakes, can't you set a date for a meeting, for a discussion of this? So that if we can't have the meeting prior to my coming over for this hearing, so that I can at least report the definitive date?" True to form, the NSC has not yet given me a date, and I cannot defend that at all.

But I can be a little more optimistic than that, Ms. Kennelly, because I really think we will do this in the next 2 to 3 weeks, perhaps. I think we're finally nearing the conclusion of this process, which has been indefensibly procrastinated.

Ms. KENNELLY. Well, we'll keep talking, Mr. Ambassador.

Let me ask you one last quick one, and it's something I'd just like your opinion on.

The ITC, in their relief recommendations for the shoe industry mentioned auctioning off quota rights. Economists have told us that quota right auctions could raise billions. Is that an avenue worth pursuing, do you think?

Ambassador YEUTTER. I really don't think so, Ms. Kennelly; not just for footwear but for other products as well. There are lots of disadvantages to a quota auction program, which I would be glad to explain to you in more detail in writing, if you would like for me to do so. But let me give a more philosophical response.

It seems to me that, as a nation, in granting relief to footwear or any other industry, if that were done I would much rather do it through a tariff route than a quota route in the first place. So I am just not enamored with quotas which make it impossible for people to enter a market, no matter how competitive they are.

I would rather retain some competitiveness features in the overall picture by granting the protection with a tariff if it is to be given.

Now, that leads to the next question, however, as to whether tariff revenues in such a situation could be used to help the adjustment process. And clearly, the theoretical or conceptual answer is that they could. One could achieve the same result simply by collecting the tariff revenues that one would achieve by auctioning quotas. So in terms of providing revenues to aid in the adjustment process or for other purposes, that certainly is a conceptual probability. I would rather do it—if we were going to do it—I would rather do it via the tariff route rather than the quota route. But I'd be glad to expand on that if you'd like me to do so.

Ms. KENNELLY. Thank you, Mr. Ambassador. Would you tell your friends I am very disappointed we didn't have a date?

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Ambassador YEUTTER. Yes, I will happily tell them.

Ms. KENNELLY. Thank you, Mr. Chairman.

Mr. JENKINS. Mr. Ambassador, when the President vetoed the textile bill he indicated he was directing the Economic Policy Council under Secretary Baker, I believe, to make a report.

Ambassador YEUTTER. Yes, sir.

Mr. JENKINS. And I believe the report was due this week. Are you aware of when that report will be issued?'

Ambassador YEUTTER. Yes, I am, Mr. Chairman. I don't want to preempt the distribution of the report, but it will be this week.

Mr. JENKINS. Thank you.

Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

Mr. Ambassador, to followup on the continuing discussion of GATT. You are going to be requesting negotiating authority; I am quite concerned about the areas which you enumerated, and especially the service area when the Department of Labor tells us that 9 out of 10 jobs formed in this Nation in the next decade or so are going to be in the service sector.

What kind of negotiating authority are you going to ask for? How upset are you going to be if we're really pretty stringent? And what kind of messages can we send?

Let me be more specific. It seems to me that if we're not going to have services on the table—I wouldn't even want you going to Geneva. I would say I feel so strongly that if they don't want to discuss services, we don't want to discuss anything.

Ambassador YEUTTER. I completely share that view, Congressman Schulze, and have communicated that view in Geneva. So as far as we're concerned, that's a nonnegotiable issue from an agenda standpoint. In other words, it has to be on the agenda or there is no point in having the exercise.

Mr. SCHULZE. That's marvelous. So if we draft your authority to negotiate and put it in terms like that, that's not going to upset you?

Ambassador YEUTTER. It would not.

Now, some other things that you could do in tying my hands could upset me.

Mr. SCHULZE. Well, I know.

What I want you to do is have a great deal of strength behind you. I want them to know that this may be the last gasp for GATT, and I don't want them to miss the seriousness of it. As you know, I do have legislation which would sort of force bilaterals. I think in the long run we may be better off with bilaterals, although it will be a lot of work and a burden for you and a burden for all of us, but I think that in the long run it might be better for us the time has come for historical change, and I think GATT had better get that message in a very firm way.

Now, I agree with Mr. Matsui's concern over the sincerity of the Japanese effort to open their markets, and I am quite concerned over the stories that I read that they're considering a 20-percent VAT. Now, it seems to me that if they implement a VAT, a 20-percent VAT, this is saying, "Yes, indeed, we're going to open our markets on one hand, but we're going to close them on the other." And I think that you—you talk about creating chaos in interna-

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tional markets and creating a political problem here, I think that would be just the absolute wrong signal to send at this time, and I wondered whether you've had any discussions about that.

Ambassador YEUTTER. I see no indication that that particular proposal is receiving significant discussion within Japan. Like you, I would hope that it does not and will not. I would go beyond that simply to say that Japan must become a responsible trading partner to us and all the rest of the world. This is not to say that they cannot have a trade surplus with anybody, but it is to say that as a very major trading nation, they have a responsibility to be both an importer and an exporter. Japan just cannot go through the next 100 years of its existence concentrating entirely on exports and ignoring the import side of that equation. Its trading partners simply will not permit that.

Mr. SCHULZE. I couldn't agree more. What especially concerns me are the statistics on Japan's trade with less developed countries. And when they in effect block less developed countries from sending goods into their market, I think we end up as the dumping area of last resort. Those goods and equipment just flow in here and we absorb them. They have to take a much greater share of goods from the LDC's.

Ambassador YEUTTER. Textiles are a classic example of that, Mr. Schulze, and I'm sorry that Mr. Jenkins isn't here to listen to this. But as he knows, Japan is a net exporter of textiles. And with the kinds of economic pressures the LDC's have, one would simply question the wisdom of that kind of economic result.

Mr. SCHULZE. And finally, Mr. Chairman, I regret that the gentleman from Missouri is not here because I wanted to praise him for his new-found enthusiasm over trade and trade relations. I don't know whether it's because of political ambitions, but when he was chairman of the task force on the tax bill he did act as sort of a roadblock on some of the items which were brought up which would have enhanced trade, I'm glad to have him on our side now and I hope he bites this apple with a lot of enthusiasm and I'm sure that it will help his ambition. I'm just sorry that he's not here to join us in that salute.

Mr. PEASE [presiding]. Mr. Schulze, I am certain that the gentleman from Missouri agrees with you in every single instance about the need to improve our competitive position and will march arm in arm with you down the path to progress. [Laughter.]

Mr. Ambassador, to continue our discussion of possible death, we were talking before about Mr. Frenzel passing on; I want to assure you that the end is near, that you will not be here forever. We expect to release you quite soon.

I'd like to raise a couple of other questions and then see if Mr. Frenzel would like to inquire further.

On the question of the taxes that was raised earlier by Mr. Crane, you mentioned that you agreed to an extent with Mr. Crane. I presume, however, that you would not disagree with the basic administration policy regarding tax reform, that the nation and the corporations of the nation will be better off in the long run to the extent that we have a Tax Code which encourages companies to make investment decisions on a basis of economic benefit

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rather than sheltering of income, of other income, from taxes. Do I understand that correctly?

Ambassador YEUTTER. Well, obviously, I will support the administration's position on taxes as it evolves. And I fully understand that this is a political process in which there are very difficult tradeoffs. That not only was the case on the House side, but it will also be the case as the issue progresses on the Senate side.

So my answer was really a philosophical one which says that we ought to pay close attention to international competitiveness as we design a Tax Code. Now, there are tradeoffs in everything and there are different ways to accomplish the same objective. So I am certainly amenable to being flexible in this regard and achieving the best possible overall result for the United States.

Mr. PEASE. I appreciate that comment.

It is true that the depreciation schedules are not as generous under the Tax Code passed by the House, and that ITC was repealed. But the administration felt—and I think a lot of other people feel—that that bill overall, with its lower corporate tax rates, will improve the competitive position of the United States, both domestically and internationally, in the years ahead.

Let me go back to a question that came up before. I believe you said that the Japanese have recently turned to a loan program for small- and medium-sized businesses, and that you were distressed by that movement on their part. My question is, will your attitude move beyond distress? Is that not an export subsidy? And if so, should we not take action against it as an unfair trade practice?

Ambassador YEUTTER. All indications, Mr. Pease, are that this program is violative of the GATT and should be evaluated on that basis. We're in the process now of putting the finishing touches on our own analysis, and you can expect some announcements from us on that very issue within the next few days and perhaps even yet this week.

Mr. PEASE. Excellent.

My final question, then, is in regard to GSP. I was pleased, as one of two prime movers—Mr. Frenzel being the other—in the renewal of GSP, to have you acknowledge that the work that Congress did has been helpful to you. Your vision is more clear than some of the others who were in the agency at the time the bill was going through the Congress, but that is often the case.

One of the new provisions of GSP directs you to look at a Nation's observance of internationally recognized labor rights in connection with granting of GSP privileges. In that connection, the State Department recently published its annual country report on human rights. And for the first time, that country report does have paragraphs dealing specifically with internationally recognized labor rights.

I must say in that regard that neither Korea nor Taiwan do very well in those reports, not very well at all. And yet, as you know, Korea and Taiwan shipped 4.5 billion dollars' worth of goods to the United States last year duty free under GSP.

I wonder if you could just share with me your thoughts—which, at this point, I'm sure are preliminary—on how those country reports in general, and regarding Taiwan and Korea in particular, might impact on their GSP eligibility?

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Ambassador YEUTTER. Well, I will certainly determine, Mr. Pease, whether or not those reports are now being evaluated within USTR in the review process. If they are not, I will make sure that they are included within that review.

Aside from that, I would add that we're prepared to look at any evidence on that subject or the other subjects that are included in your GSP amendments to make sure that they're fully considered as we make the decisions on that program over the next several months. So we'll be pleased to have any additional inputs that you have on that score, as well. I am totally aware of your strong personal interest in that area, and it is an appropriate interest. In my judgment, those are questions that clearly merit concern when we're offering duty-free treatment to anybody, whether it be Korea, Taiwan, or any other country.

So I assure you those issues will not be ignored. They will have to be balanced, obviously, with all the other elements in the picture in determining whether or not the countries should be excluded from GSP or any other modifications in GSP treatment ought to be made. But we'll look at it carefully and definitively and comprehensively, and we'll look at it from a standpoint of considering those to be very relevant and critical questions.

Mr. PEASE. I appreciate that statement, Mr. Ambassador.

I mentioned earlier that both my constituents and my colleagues in Congress are really fed up with unfair trade practices, and I hope you would agree with me that it's arguable that exploitive labor practices are a form of unfair trade practices on the part of our trading partners.

Ambassador YEUTTER. Absolutely. I just signed a letter to you this morning in response to an earlier communication from you in which I offered some views on that subject, and I believe that our opinions are compatible.

Mr. PEASE. Good.

Chairman GIBBONS. We could put those letters in the record at this point.

Mr. PEASE. I'd be happy to make them available, Mr. Chairman.

[The letters follow:]

U.S. HOUSE OF REPRESENTATIVES,
Washington, DC, January 20, 1986.

Hon. CLAYTON YEUTTER,
U.S. Trade Representative,
Washington, DC.

DEAR MR. AMBASSADOR: During your previous appearances before the House Ways and Means Committee, I have never had sufficient time to pursue a line of questioning with you to which your answers would be of great interest. Allow me to do so in writing in advance of the intensive schedule of hearings and mark-up of trade legislation to begin in a few weeks.

(1) I am encouraged that the President has directed you to take some actions against unfair trade practices used by some of our toughest foreign competitors. Numerous American industries and unions have long clamored for action against unfair trade and the "economic dumping of low-priced foreign goods into the American marketplace. Isn't strong action also warranted to counteract "social dumping" in international trade (i.e., competitive advantage derived from the exploitation of workers who are denied the free exercise of such basic rights as freedom of association)?

(2) How can American firms and workers, for example, hope to compete with their Taiwanese counterparts who work under the thumb of a martial law dictatorship and who receive 13% of average U.S. manufacturing wages? More importantly, is it fair and right to ask them to do so? (Sadly, we don't even give our constituents a

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level playing field in that we allow nearly $1 billion worth of Taiwanese goods to enter the U.S. duty-free every year through the GSP.)

(3) Section 121(c)(4) of the Trade Act of 1974 currently directs the President to seek the "adoption of international fair labor standards and of public petition and confrontation procedures in the GATT." What specific steps has the Reagan Administration taken to fulfill this requirement of the law?

(4) What actions are you prepared to take to immediately begin to reverse the escalating trend in global production in the 1980's that pits American workers, especially in the manufacturing sector, in direct competition with those foreign workers whose basic rights are the least protected?

(5) Shouldn't the rules of fair competition in world trade renounce labor repression as a means of gaining competitive advantage? Shouldn't they also be structured to improve the living standards of workers as well as consumers?

(6) It is my understanding that a GATT preparatory committee by mid-July is to hammer out an agenda for a new round of multilateral trade negotiations. That outline would subsequently be submitted to the GATT ministerial-level meeting scheduled for September. Will you see to it that negotiation of a system of minimum international fair labor standards is included in the agenda from the preparatory committee and in the outline for the ministerial meeting so as to make certain that this is a high priority certain to be substantively tackled when the new trade round begins?

(7) Inasmuch as section 121(a)(4) calls for the development of "public petition and confrontation procedures in the GATT", why don't you pursue, on a test basis, one or more well-documented cases of unfair labor standards under existing GATT procedures? This could take place under Articles XXII and XXIII of GATT, which provide mechanisms for settlement of disputes between contracting parties.

I look forward to expeditious and candid responses from you to each of these questions. Your insights and expertise will be very helpful to me in probing this dimension of international trade.

Sincerely yours,

DON J. PEASE,
Member of Congress.

U.S. TRADE REPRESENTATIVE,
Washington, February 21, 1986.

Hon. DON J. PEASE,
House of Representatives,
Washington, DC.

DEAR DON: Thank you for your thoughtful letter regarding international fair labor standards. The question of worker rights is one which very much concerns both the Administration and me personally, and we are exploring different ways for dealing with this issue as effectively as possible.

We are first of all already implementing the labor rights criteria that were incorporated in the GSP program when it was renewed by the Trade and Tariff Act of 1984. As part of the ongoing GSP General Review, we are reviewing complaints regarding the worker rights practices of a number of beneficiary countries. Also, we have just issued final regulations for the GSP program that ensure that worker rights issues will receive the attention they deserve in our annual GSP reviews.

The Administration also has taken several trade actions including the self-initiation of 301 cases to open foreign markets and to remove foreign practices that affect our ability to compete abroad. I am confident, I might add, that we remain competitive in many areas even with those countries where poor labor conditions prevail. The productivity of American workers in manufacturing is up, there is an encouraging trend in American labor-management cooperation and, of course, the dollar is down. These factors help U.S. competitiveness.

The key to increased U.S. competitiveness, productivity and trade in the coming years, however, lies not just with measures in the short and medium term to address specific unfair foreign trade practices. Such actions must be complemented by macroeconomic policy actions. Our developed country trading partners need to stimulate their economies in non-inflationary ways so their economies begin to converge with ours. This will increase their demand for imports and begin to move all of our currencies towards better balance. Of course, we need to continue our efforts to reduce the federal deficit if we are to experience sustained economic growth and further lower the trade deficit.

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The United States Government has on several occasions sought without success to have the GATT address the relationship between trade and labor standards. In 1953, the U.S. informally proposed that a fair labor standards clause be introduced in the GATT. This initiative failed due to differences on how to define fair labor standards.

The U.S. also formally proposed that the post-Tokyo Round GATT work program consider the possibility of implementing minimum international labor standards (MILS) with respect to international trade. Our attempts failed because only the Nordic countries supported us, and eventually even their support weakened.

As you note in your letter, over the next seven months the GATT Preparatory Committee will develop a consensus on the objectives, subject matter, and organizational details for the new negotiations. It will then prepare a draft declaration for Ministerial approval in September. We have the right to raise any issue of interest to the United States in the Preparatory Committee's discussion. However, items included on the negotiating agenda are likely to be those for which there is broad international support. The issue of fair labor standards has not been raised by any other country to date. Therefore, it will be extremely difficult to achieve consensus on adding it to the new round agenda. But we'll certainly try.

Sincerely,

CLAYTON YEUTTER.

Mr. PEASE. Last, I would just like to comment for the record that after some fairly lengthy negotiations, my office and your office have reached an accommodation about access for groups interested in human rights and labor rights in other nations, to make their views known as part of the process of review. And I wanted to thank you and your staff for your cooperation in that regard.

Ambassador YEUTTER. You're very welcome, Mr. Pease.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

Again, our thanks, Mr. Ambassador.

With respect to the GSP question which the gentleman from Ohio raised, are you going through the graduation process now?

Ambassador YEUTTER. We're going through that total, general review, Mr. Frenzel, which is required by law, as you know, with a January 1987 deadline for a final decision on our handling of the issue.

Mr. FRENZEL. And I assume, then, that if you discover that you need additional legislation, that would not likely be presented until you go through the whole cycle?

Ambassador YEUTTER. I would think not. It's my opinion, just based on a cursory look, that we have ample legislative authority to deal with that question. But if we spot something that's missing, we'll certainly come back and talk to you. But we're not likely to have anything to say on that subject for a while yet.

Mr. FRENZEL. Another question raised earlier was the tax bill, and I hope that the administration's support of some kind of general tax reform will not inhibit it or you from making some statements about certain portions of the tax bill, particularly those that relate to U.S. companies and incentives to operate overseas. Is that a correct assumption?

Ambassador YEUTTER. Certainly, although Secretary Baker obviously has the lead on tax legislation. I confer with him regularly, so there really are no impediments to my expressing my opinions to him or to anyone else in the administration on that subject.

Mr. FRENZEL. And if you had the notion that putting section 911 exclusions into the minimum tax was a bad thing, you could communicate that to the Secretary?

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Ambassador YEUTTER. I would feel free to communicate on that or any other issue, Mr. Frenzel.

Mr. FRENZEL. Good. I noted here when the bill went through that we have four major incentives—deferrals, credits, 911, and FISK—and every one of them was wounded as they went through here. I hope that you will be successful in discussing these with the Secretary and that he will be successful in having them worked out.

Ambassador YEUTTER. Thank you, Mr. Frenzel. And if you'd like, please send me a memorandum or something on the subject so I could communicate your views, too. You could do that directly, obviously, but if you'd like to join with me in submitting those communications, that would be perfectly appropriate.

Mr. FRENZEL. Having struck out myself, I'd like to have you hold my bat the next time I go to the plate.

I have another commodity question for you, and this is soda ash in Japan. We've worked that problem over a period of years, and are we getting anyplace on it? Is it something that might get elevated to a MOSS status in the future if we don't do better? At one time we thought we had agreement, and suddenly the window shut.

Ambassador YEUTTER. Yes. That's an issue with which I am very familiar because it involves some of my former business friends out in Chicago.

I would simply say that it's an issue that we discussed with the Japanese since I have been here, and have discussed it internally through the interagency process and are, in fact, doing so today. I am not sure at this point whether it will make the next MOSS list, but it is under consideration for that purpose or, alternatively, to be handled in other ways. So it's not a back burner item, Mr. Frenzel, it's a front burner item.

Mr. FRENZEL. That's right. And speaking of MOSS, there was some talk in some agencies that MOSS so used up—used up our resources, spent up our personnel—that we might not go forward with it. I believe particularly that the success in telecommunications was a signal success on our part.

I hope that we will, perhaps, enter another round of those. When we leave our trading partners, such as the Japanese, to invent their own action programs, there is a singular lack of action following those programs. I think it is only when we define very specifically what are not our only programs, but our priority programs, that we make some success. Can you tell me your feeling on that?

Ambassador YEUTTER. My judgment, Mr. Frenzel, was that we need to pursue the Japanese on every front. And that includes specific processes such as MOSS as well as the more general efforts to get them to focus on their import needs and to have a significant import thrust or import vision. So we ought not relax on any of these fronts because some of them will pay dividends in time. And this is one that did pay good dividends on a number of issues, although it was very costly in terms of the commitment in terms of time and manpower and energy on both sides. It was a long—those MOSS talks were a long, hard struggle. But the ultimate result in most of the areas was a very positive one from our standpoint, and perhaps more positive than would have been achievable in any other forum presently available to us.

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So I have personally concluded that we should pursue the MOSS process further, but that that should by no means be the only way that we approach the Japanese. But it ought to be a part of our package in United States-Japan strategic terms.

Mr. FRENZEL. Thank you. I strongly agree; that resulted in some contracts in my area which were enormously helpful, just as using the diet aid and mixed credits were successful in helping a local firm achieve some great success.

Ambassador YEUTTER. Yes.

Mr. FRENZEL. We have been successful with new devices, new vehicles, and I hope we continue to use them and to develop even newer ones in the future.

Finally, I want to say with respect to the 301 program that there were many skeptics in Congress when you opened it up. I think you will recall, after your first announcement, I said, "You're shooting with a pea-shooter and you're talking about little, dinky things." But the way that it has developed, I think, has been a great thing for our country and our ability to export. Not only have you done the job on the items mentioned, but you have managed to piggyback some other things through that you did at the request of Mr. Duncan and myself and many other Members of Congress who are interested in a particular industry.

I think that program is going very well, and I congratulate you for it and the people who work with you, and I hope you will tell them how grateful we are for the good progress of that program.

Ambassador YEUTTER. Thank you. It's been a major effort, and I believe it's fair to say it's been a major success so far.

Mr. FRENZEL. Thank you. I yield back my time.

Chairman GIBBONS. Thank you, Mr. Frenzel.

I've just got a few questions here.

As we all know, the European Community has been enlarged. Would you describe what problems that has raised for us and what we intend to do about it? And do we intend to retaliate if they are not helpful in removing some of these new problems?

Ambassador YEUTTER. Enlargement is a major issue at the moment, Mr. Chairman. We haven't talked about it this morning. You are, of course, referring to the accession of Spain and Portugal to the Community——

Chairman GIBBONS. Yes.

Ambassador YEUTTER [continuing]. And the decision by the Community to impose constraints on our agricultural exports into those two countries.

Chairman GIBBONS. Yes, sir.

Ambassador YEUTTER. We have about $1 billion of agricultural trade at issue there, and severe potential damage if the present Community program is implemented on March 1, as is planned.

We have a negotiator, Jim Murphy, our Assistant USTR for European Affairs, in Brussels today—or this week—and we'll have a better feel for the situation by the end of the week. I have communicated to my counterpart, External Affairs Commissioner, Mr. de Clerq, our declared consternation with what they're proposing to do and with the fact that they have not consulted with us on that prospective trade damage. He has now agreed to consult, which is why Mr. Murphy is in Brussels. Whether the Community will be

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amenable to any adjustments in those programs, we'll find out within the next few days.

I would only say that if those programs are implemented as planned on March 1, there will assuredly be a U.S. response.

Chairman GIBBONS. Well, I wish you would tell your negotiator in Brussels to stress that the Congress is very concerned about this. Particular Members have raised this question with me directly. I raised it in my own interest, and I think it's something that the European Community ought to be fully aware of, the fact that Congress is very concerned about this expansion. We applaud their expansions, but we don't expect their expansions to take place at our economic disadvantage. And we expect them to consider us when they expand.

Now, I've got another question about China. China has reapplied to become a member of GATT. What problems does that create for us, and what do you see is going to happen with China now becoming a member of GATT?

Ambassador YEUTTER. It creates a lot of problems, Mr. Chairman; hopefully, a lot of opportunities, too.

Chairman GIBBONS. Yes.

Ambassador YEUTTER. So it's a balance of the two. We certainly want China to become an active member of the world trading community, and obviously it's in our interest and their interest to have the Chinese economy expand and improve. And we are all dedicated to facilitating that process.

At the same time, GATT membership brings forth some immense complications because, as you know, China is not a market economy. It would be by far the largest non-market economy ever to join the GATT. We have some Eastern European nations who are GATT members today; and though their conduct in international trade poses some problems, they are minute compared to the potential problems of having China as a member of the GATT.

In all of these cases, the big challenge is to determine whether or not existing GATT rules will provide effective international discipline on the trade practices of China or of other nations who do not follow the kind of economic system for which the GATT was designed. That will require some enormous soul-searching on the part of all of us. A decision be made to admit China to the GATT, and my personal opinion is that such a decision will be made, forces us to address the terms of accession? That is, what kinds of commitments and promises and actions will have to be provided by the Government of China in becoming a GATT member? That will be a very difficult negotiation that will probably take a substantial period of time to complete. More importantly, whether that entire process makes sense at all or whether we need to develop new GATT rules to handle nations such as China when they come into membership. In other words, can we make the existing system function in such a way as to accommodate a Chinese membership, or do we have to make dramatic changes in the entire GATT complex in order to accomplish that process in a sensible way?

These are questions that I cannot answer today, Mr. Chairman. They are questions of importance to you and your committee, as well as the executive branch.

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Chairman GIBBONS. Well, I welcome China's participation in any kind of international arrangement like that, but I realize that in the kind of economy they have had in the past, and generally have now, that it is going to be very difficult to adapt rules to fit their economy. And I don't know the answer, either. Maybe that should be the subject of some more hearings, to try to smoke this thing out.

Is there a working party in GATT or something of that sort that is working with this?

Ambassador YEUTTER. There will be one appointed very soon, if it has not already been appointed, Mr. Chairman, because China has indicated that it does wish to renew its GATT membership. And so a working party, of which we will be a key member, will focus on that issue at a relatively early date.

Chairman GIBBONS. Now, Mexico has——

Ambassador YEUTTER. Same situation.

Chairman GIBBONS [continuing]. Reversed its position and has decided to join GATT.

Ambassador YEUTTER. That is correct, and we welcome that, of course, because we believe that Mexico, as a major trading nation, ought to be a member of the GATT. That one is simpler because they do have a market economy; and yet, it will be complex because it's a major trading nation and also it's a lesser developed nation with all the problems incumbent thereof, including their major debt burdens of the moment.

So that, too, will be a very complex and difficult exercise in which the United States will play a significant role.

Chairman GIBBONS. Speaking of debt burdens, our staff has prepared for us a chart that we will, without objection, insert at this point in the record.

[A table follows:]

EXCHANGE RATES

	Sept. 20, 1985[1]	Feb. 19, 1986	Percent change of dollar
Japanese yen	239	181	-32
German mark	2.84	2.31	-23
French franc	8.66	7.10	-22
United Kingdom pound	1.37	1.45	-6
Canadian dollar	.73	.71	+1.2
Italian lira	1909	1572	-21
Swiss franc	2.33	1.91	-22

[1] Friday before G-5 announcement.

Note—Grade-weighted change: -13.4 percent.

Chairman GIBBONS. It shows the changes that have been made in exchange rates between September 20, 1985, and February 19, 1986. It just occurs to me that we have borrowed an awful lot of money from Japan, that we probably borrowed it at around 240 yen to the dollar, and now we're going to have to pay it back at 181 yen to the dollar. The staff calculates that that's a 32-percent change in the value of the yen versus the dollar which, if I'm not wrong, means that the American debt has probably gone up around 32 percent.

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Ambassador YEUTTER. That's probably correct, Mr. Chairman. But irrespective of what the numbers are, what that means is that maybe we should have thought twice about having Federal budget deficits as big as they've been over the last several years and having them financed by foreign capital movement.

Chairman GIBBONS. Well, I was going to say that the day of reckoning is coming, and it's coming with a vengeance. We worry about debtor nations like Mexico, but it looks like we snookered ourselves here when we increased our principal, probably, about 32 percent on the United States-Japanese debt in just a 6-month period. I don't know whether we could stand too much more devaluation of the yen.

But, you know, there's no free lunch and this just illustrates it over and over again.

Do we know how much money we owe to the Japanese?

Ambassador YEUTTER. I don't have any figures for you, Mr. Chairman. We can probably provide you some estimates.

Chairman GIBBONS. I'm going to ask you to do it or ask our staff to do it, and put it in the record at this point.

[The information follows:]

U.S. LIABILITIES TO JAPAN

At the end of 1985, total net U.S. liabilities to Japan (including direct and portfolio investment as well as bank deposits) were $45.5 billion. Of that, $25.2 billion represented net liabilities of U.S. banks to Japanese persons.

Chairman GIBBONS. I think that it's a large amount of money, and if I were a Japanese banker I'd be grinning from ear to ear on this thing, if I interpret the news right.

Actually, as I think about it a bit more, since our debt is denominated mostly in dollars, the recent changes in the exchange rate won't affect the payments we'll have to make on it, so we're lucky in that sense.

Any further questions by any member of the panel?

If not, Mr. Secretary, we appreciate very much what you have done. You've put on a sterling performance this morning; lots of vigor, lots of substance, and we look forward to working with you.

Ambassador YEUTTER. Thank you very much, Mr. Chairman. It's great to be here.

[Whereupon, at 1:13 p.m., the hearing adjourned.]

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